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A New Inflection Point in Hemispheric Economic Policies

William Glade

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I. INTRODUCTION

THE long twentieth century, to borrow the historian's flexible periodization, covered three major policy inflections in Latin America and, indeed, many other countries and regions. Each involved modifications in the aims of general public policy and substantial changes in the corresponding policy instrumentation. Each reorientation had implications for commercial policy as well as domestic affairs. Though it is possible to quibble about the particulars of each of these fundamental alterations, few would gainsay the general applicability of such a schematization as an interpretation of how the main policy currents have swept along in the last 150 years or so. In fact, there were seldom distinct breaks, rather there were a series of lengthy segues from one policy style to another with more and more regions being encompassed by such changes over time.

During this time, which is roughly coterminous with the modern era (though not modernism), (a) economic liberalism emerged out of the older mercantilist policies, and trade restrictions diminished as increasingly open economies composed an emerging world economy; (b) economic liberalism in turn gradually ceded ground to a growing predilection for intervention in domestic matters as well as international economic relations; and (c) as the shortcomings of intervention were recognized, the neo-liberal Washington consensus swept the world, encompassing advanced industrial nations and developing economies. In this last episode, fundamental breaks in policy even occurred in the erstwhile centrally planned economies, which, although they did not conform to all the strictures of the neo-liberal policy package, at least reconstituted their command economies on a more market-oriented basis.

One of the intriguing, "end of history" questions confronting society today is whether the last of these policy episodes is exceptionally durable or is itself passing into history. Society is moving again into an era in which the public sector plays an increasing role, domestically and, at least indirectly, in the management of national economies' engagement with the rest of the world. Just as the growing recourse to state intervention, which characterized the era antecedent to the neo-liberal paradigm, rep-

* Professor Emeritus of Economics, the University of Texas at Austin.

resented, in many cases, at least a tacit awareness of market failures (though the term "market failure" itself came somewhat later), the more recent liberal restoration has coincided with a growing recognition of public sector or government failures. Yet, recurrent instability at both the national macroeconomic and global levels, in addition to looming uncertainties on the even longer-term horizon, indicates that a durable policy equilibrium has yet to be achieved.

In each of these posited periods dominated by a particular policy orientation, countries exhibited considerable differences among themselves. Cross-sectional variation was substantial, and the world was rarely, if ever, without exceptional cases—especially in the earliest of the three epochs when colonialism prevailed over much of the earth. Society would do well to keep the aforementioned in mind as it ponders where policy may be headed in the years ahead. While the primary concern in this article is with the inter-American setting, there appears to be less and less differentiation between what happens in the Western Hemisphere and what takes place on a global basis. If anything, trends and conditions operative at the world level tend to supersede or swamp what occurs in the Americas.

II. TRACKING POLICY DOWN TO THE PRESENT

The first of the distinctive policy episodes postulated herein originated in Britain, though a major descriptor of the era's policy style, *laissez faire*, was coined by a French physiocrat. As the geographical boundaries of the British Empire expanded and as British commerce, along with other countries' commerce, stepped up, more and more regions were drawn into the orbit of a U.K.-centered trading network and were influenced, through that relationship, by British doctrines concerning the advantages of liberalized trade. Some fifty years or more before the twentieth century opened, and continuing until around the time of World War I, the policy model that centered on *laissez faire*, with its corollary of an open-economy trading system, took hold in Great Britain and came to influence Western Europe, the United States, and Latin America. Over an ever-larger territory, the official welcome mat was put out for foreign investments, though in colonial regions local authorities had little choice in the matter. Foreign trade, relatively unfettered save for the shaping revenue tariffs gave, was the driving force of national and global expansion, joined increasingly by the outflow of investment capital and technology from the money centers of Europe and, in time, the United States.

This remarkable era, which could be said to have begun with the repeal of the Corn Laws in Great Britain in 1846,[1] gained a certain impetus with

1. The importance of the repeal of the Corn Laws, under a Conservative prime minister whose government fell not long thereafter, can hardly be overstated for its bearing on the policy environment it introduced. The episode is instructive for the long-term trade liberalization that commenced with the first negotiations, in the late 1940s, of the General Agreement on Tariffs and Trade when the proposed

the First World Congress of Economists in Brussels in 1847.[2] A notable prelude into this era, however, began somewhat earlier when, responding to the indefatigable efforts of William Wilberforce and his colleagues, the British Parliament succeeded in extinguishing a whole category of coercive international transactions: the transatlantic slave trade. This major restructuring of the international economic system helped promote the eventual spread of free labor markets in slave-holding regions and did much to eliminate pre-capitalist modes of production in key areas. The liberalization drive picked up speed with the free-trade movement triumph in Germany during the 1860s and reached a high water mark with the Cobden Chevalier Treaty of 1869, an agreement between France and England, the two leading trading powers, which ran until 1892.[3] This quarter of a century or so could justifiably be called the Golden Age of economic liberalism, as it was then that the package of ideas and theories that took competitive markets as optimal became firmly established as normative.

The acceptance of free trade was not universal.[4] On a geographically widespread basis, for example, there was a heavy reliance on public subsidy in one form or another to build national railway systems and other infrastructure, particularly in Europe, the United States, and other regions most closely linked into the world economy. Key industry-fomenting policies—chiefly national market unification through the Zollverein and its successor arrangements, the improvement of transport infrastructure, major support for scientific research, and a strengthening of the university and pre-collegiate educational system—were employed in Germany to launch its modern development, where the notable expan-

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International Trade Organization failed to be ratified. *See generally* CHERYL SCHONHARDT-BAILEY, FROM THE CORN LAWS TO FREE TRADE: INTERESTS, IDEAS, AND INSTITUTIONS IN HISTORICAL PERSPECTIVE (2006).

2. This seminal meeting, whatever its practical results, was a landmark. Several analyses of it and the intellectual milieu that spawned it follow, the last of which is an invaluable trove of documents pertaining to trade or commercial policy. *See generally* BATTLES OVER FREE TRADE: ANGLO-AMERICAN EXPERIENCES WITH INTERNATIONAL TRADE, 1776-2006 (Mark Duckenfield et al. eds. 2008); ANTHONY HOWE, FREE TRADE AND LIBERAL ENGLAND: 1846-1946 (1997); VICTORIAN VISIONS OF GLOBAL ORDER: EMPIRE AND INTERNATIONAL RELATIONS IN NINETEENTH-CENTURY POLITICAL THOUGHT 30-31 (Duncan Bell ed., 2007).
3. *But see* Frederick Engels, *The Free Trade Congress at Brussels*, THE NORTHERN STAR, Oct. 9, 1847, *reprinted in* 6 MARKS AND ENGELS COLLECTED WORKS 282 (Andy Blunden & Brian Basgen trans., 1995) (providing an interesting counterpoint to the 1847 conference, sometimes called the Free Trade Congress). Another dispatch by Engels included a speech, ostensibly prepared for the Congress by Karl Marx but not actually delivered there. *See* Frederick Engels, *The Economic Congress*, 76 DEUTSCHE-BRÜSSELER ZEITUNG 274 (1847), *reprinted in* 6 MARKS AND ENGELS COLLECTED WORKS 274 (Andy Blunden & Brian Basgen trans., 1995). Perhaps not surprisingly, these criticisms of free trade have echoed down through the years, some in a remarkably unadulterated form.
4. W.O. Henderson, *Prince Smith and Free Trade in Germany*, 2 ECON. HIST. REV. 3, at 295-02 (1950) (recounting the career of an Englishman who moved to Germany and devoted most of his adult life to agitating for free trade policies in that country). His efforts and the context that they took place are relevant to much of today's discussions.

sion of industries may have owed relatively little to conventional protectionism.[5] More consequentially, however, for the erosion of market power, this was the era that pioneering social legislation came into play in Bismarck's Germany, a development that was in some ways an outgrowth of the outlook of the early cameralists,[6] whose doctrines were grounded in statecraft rather than the market. Other British policy preferences were challenged in Germany; the doctrines of Friedrich List and Wilhelm Roscher, as well as others of the German historical school, picked up the statist orientation of the cameralist precursors of German economics.[7] In Germany, as elsewhere in Europe, North America, and the more advanced parts of the developing world, government was involved at various levels in social investment in overhead capital such as: educational and research institutions; health systems; water supplies; banking; and, of course, transport and communications.

France, too, began in time to back away from its flirtation with economic liberalism, and state fostered banking institutions, together with an exemplary program of public investment in transport capital, were employed to spearhead economic modernization. Similar developments occurred in the Austro-Hungarian realm and elsewhere. Inter-country variations remained significant in financial structure and policy, the pattern of industrial development, and agriculture. And if exceptions to the regnant liberalism did not exactly abound, they were far from rare. Chief amongst these exceptions, apart from the aforementioned policies adopted by imperial Germany, was the state-sponsored industrial modernization and agricultural promotion policies adopted by Japan after the Meiji restoration of the 1860s, with its radical alteration in land tenure, wherein protectionism became deeply engrained and extended even to an exclusion of foreign investment. From that time forward, the public and private sectors worked hand in glove to build a new industrial and, unfortunately, military prowess, with a socially approved industry concentration as one of the main building blocks for the new Japan. Japanese development policy was, in fact, centered on state action and government-sanctioned oligopolies and monopolies, so that the great Zaibatsu,

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5. National market unification had come much earlier in France and Britain.

6. KEITH TRIBE, GOVERNING ECONOMY: THE REFORMATION OF GERMAN ECONOMIC DISCOURSE 1750-1840 (1988). List became an ardent advocate of the Hamiltonian American System during his stay in the United States (1825-1830) and was impressed by the spurring of German industry that came from the Continental System when Napoleon sought to reduce trade with Britain. Upon List's return to Germany, he agitated on behalf of protected industrialization, and such a theme became part of his book. *See* FRIEDRICH LIST, THE NATIONAL SYSTEM OF POLITICAL ECONOMY (Sampson S. Lloyd Trans., 1909). It is relevant to note that in the early days of Latin American industrial development, Mexico's prestigious *Fondo de Cultura Económica* published a Spanish edition of List's book, sensing that his ideas were closely related to the *Weltanschauung* of the policy community at that time. *See* FRIEDRICH LIST, SISTEMA NACIONAL DE ECONOMÍA POLÍTICA (1942).

7. *See generally* W.O. HENDERSON, FRIEDRICH LIST, ECONOMIST AND VISIONARY, 1789-1846 (1983).

which emerged to dominate a highly protected domestic market, were sheltered by the near embargo on foreign capital penetration.[8]

Concurrently, in the United States, developments were also underway to reshape the contours of economic policy in a more governmentally oriented way. There, industrial promotion had become a key objective of tariff policy when the free-trade favoring South was defeated in the Civil War, and a lavish use of public resources was employed to promote the building of a national market through a comprehensive railway system. Additionally, from the time of the Morrill Act of 1862, government resources (in the form of land grants and rising state appropriations) poured increasingly into education and research, though several state-level institutions of higher learning antedated that historic legislation.

In the same period, the regulatory state took hold and exhibited a notable dynamism during the so-called Golden Age of economic liberalism. The National Banking Act of 1863, succeeded by the National Bank Act of 1864, sought, for instance, to bring stability to a financial system sorely in need of regulatory strengthening to support the federal government during the Civil War and to remedy the notable shortcomings of the earlier, less regulated banking systems. Only a short while later, *Munn v. Illinois* provided a clear legal basis for public utility regulation[9], and in 1887 the Interstate Commerce Act established the first true federal regulatory commission. Soon thereafter, the Sherman Anti-Trust Act of 1890 opened the door to federal intervention to regulate monopoly power and promote competition, the first of a long series of measures with this general aim. The Federal Reserve Act of 1913 introduced a new role for government in economic regulation of the financial system, while a very large assortment of other measures—e.g., the Interstate Commerce Act—steadily enlarged the economic scope of central government, even before the huge enhancements of this role that came during the 1930s and 1940s. Meanwhile, with the triumph of industrial interests in the North with the end of the Civil War, the Hamiltonian argument for industrial protection was pressed successfully and repeatedly in Congress, so that tariffs became a feature of industrial policy in the United States, albeit perhaps less decisive than the role of other factors in furthering industrial growth and the transformation of economic structure.

These interventionist measures aside, however, liberal economic policy held a normative position that dominated Anglo-American intellectual circles and served as a kind of lodestar for the formation of public policy, even when significant exceptions were made. With the expansion of world commerce, which carried the influence of British economics

8. *See, e.g.*, THOMAS C. SMITH, POLITICAL CHANGE AND INDUSTRIAL DEVELOPMENT IN JAPAN: GOVERNMENT ENTERPRISES, 1868-880 (1955). Interestingly, the exceptional character of development policy in Japan and Germany during their development of capitalism was captured early on by Thorstein Veblen between a memorable book on Germany and an incisive shorter essay on Japan. *See* THORSTEIN VEBLEN, IMPERIAL GERMANY AND THE INDUSTRIAL REVOLUTION (1915).

9. Munn v. Illinois, 94 U.S. 113 (1876).

abroad, a leaning towards free trade swept through much of what later came to be called the third world,[10] even when it was forcefully imposed as in the case of the hapless imperial China. Meanwhile, the spread of territorial claims by continental European powers in Africa and Asia, growing ties between Europe and an expansive North America, revolutionary changes in transport and communications as well as production technologies, and the growing capacity to export capital to distant resource locations drew additional resources and markets into the trade system that spanned the North Atlantic. All these connections provided additional vehicles for the spread of Western liberalism through intellectual channels and a denser network of commercial treaties embodying British preferences. There was hardly a country in Latin America, for example, that did not harbor new political parties of liberal inspiration during the first half century or so of republican government. Yet, notwithstanding the fact that economic liberalism became firmly ensconced as the primary policy paradigm of the day, modern research has shown that a kind of surreptitious ad hoc interventionism was employed to further infrastructure and even industrial development in countries like Brazil, Mexico, Argentina, and Chile, to cite only the main Latin American instances.

One further step in institutional evolution should be noted: as economic liberalism moved towards and through its zenith, it was only in an incipient stage of development. In northern Europe, the cooperative enterprise began as an alternative to the commercial firm in organizing the production of services and goods. More in the twentieth century than earlier, it also took root in some parts of the U.S. economy, though Mormon cooperative enterprises dated from the latter half of the nineteenth century. Throughout that century, and earlier, there was a growing sector of non-profit colleges and universities, as well as independent pre-collegiate schools and hospitals, many established under religious auspices. And more than a few not-for-profit organizations were also being established to carry out the production of cultural and welfare services, thereby laying the basis for what became in the following century a dynamic third or independent non-profit sector. In time, this development of a not-for-profit sector, related to if not exactly the same as the concept of civil society, placed the United States in the forefront of this aspect of modern institutional change.

In the early 1900s, private foundations, family-founded, associationally sponsored, and corporate philanthropies began to flourish even more as additional not-for-profit cultural and eleemosynary institutions came into

10. *See, e.g.*, H.S. FERNS, Britain and Argentina in the Nineteenth Century (1960); *see generally* RICHARD GRAHAM, BRITAIN AND THE ONSET OF MODERNIZATION IN BRAZIL: 1850-1914 (1968). Intellectual exports, in the form of policy designs, were not the least consequential of the British exports of that day and age, a point relevant to discussions of the Washington Consensus. *See* THE LAND THAT ENGLAND LOST: ARGENTINA AND BRITAIN, A SPECIAL RELATIONSHIP (Alistair Hennessy & John King eds., 1992).

being, addressing, as did the public sector, instances of market failure and also playing the role performed by governmental, royal, and aristocratic patronage in Europe. While the beginnings of private philanthropic organizations had occurred much earlier (i.e., by the end of the nineteenth century), such resource transfers increasingly paved the way for the proliferating foundations and other not-for-profit organizations of the twentieth century—a development some have interpreted as a social response to the conjunction of market and public sector failure. In time, cooperative organizations of various types also began to proliferate—yet another implicit critique of the limitations of a market economy based on profit-seeking commercial firms. While some quite large production and marketing organizations eventually came into operation in North America (in the twentieth century), they did not achieve the prominence that this form of enterprise attained in northern Europe.

Although colonial Latin America had evolved a not unimpressive array of charitable undertakings primarily under ecclesiastical auspices, both the private and public sectors made contributions. Private endowments known as "pious funds" were fairly frequent and the royal government also provided food relief in times of scarcity as well as other enterprises we would today call eleemosynary. The disruptive political, economic, and institutional conditions of the nineteenth century did huge damage to the social services and educational sectors, but here and there such institutions as *beneficencias públicas* were able to play at least a modest role in addressing the severe social problems of the region.

During the same period, missionaries and other, more secular groups were also fanning out from Western Europe and the United States to establish hospitals, schools and colleges, churches, orphanages, and such in much of today's third world. Private and religious auspices also led the way in establishing educational enterprises abroad at a relatively early date, as in Robert College (1863), the American School for Girls (1871) in Constantinople, and the American University of Beirut (1866), not to mention a welter of educational and medical undertakings launched in China. Missionary effort in Africa was particularly widespread given the links of the non-Islamic portions of that continent with European colonizing powers.

It is not too much of a stretch to see in this era the proximate sources of the globalization that now, thanks to technological advances in information and communication, knits the economies of the world ever more closely together. After all, the era's prevailing liberalism was seasoned with interventionism and the early dispersion of religious and secular missionaries to "benighted" distant lands. To be sure, the fabric of world trade was not seamless. Borders still mattered,[11] but to a degree hitherto

11. John F. Helliwell and others have shown that transaction costs are still influenced by differentiated sovereignty even where cultural affinities are strong and relatively open market policies are followed. *See, e.g.*, JOHN F. HELLIWELL, HOW MUCH DO NATIONAL BORDERS MATTER? (1998).

altogether unprecedented. That said, the striking gains in market coverage, technological innovation, industrial and agricultural productivity, and the rise of a steadily more sophisticated business services sector attested to the growing strength of the international trading system as a source of historically unprecedented increases in aggregate output and standard of living, all of which added to the reputational capital of liberal economic policy.

The paradigm of economic liberalism may have been received most eagerly, at least by the modernizing elites, in Latin America—especially Argentina, Brazil, Chile, Peru, Colombia, and Mexico. Here and there, most notably in the same set of countries, policy sometimes included measures to promote national growth in directions inconsistent with the regnant *laissez faire* of market capitalism. But these policies were relatively minor deviations from the mainstream policy, even though they contributed to the early appearance of modern industry somewhat before the turn of the century.

Thanks to the reigning trade policy preference, the growth of market-centered enterprise in domestic economies, and dramatic changes in transport technology and costs, not to mention the rapidly increasing geographical mobility of capital and rising per capita incomes, the era of free trade coincided with a massive expansion of the volume of world trade. It is notable that in an era in which world output was growing at an unprecedented high rate, the share of merchandise exports as a percentage of gross output rose even more rapidly: from 5.1 percent in 1850 to 11.9 percent in 1913.[12] Nevertheless, this record of long-term achievement did not forestall eventual changes in the direction of interventionism in the inter-war period and thereafter.

The harbinger of a long-term Latin American shift in a much more statist direction was, somewhat surprisingly if arguably, prosperous Uruguay, a leading beneficiary of the U.K.-centered free trade era. The small, largely European country moved away from the neoclassical policy paradigm as early as the second administration of Batlle y Ordóñez, which came to power in 1911. Under Batlle, the government instituted a state-directed development model that rested on a heavy component of welfarism. As economic nationalisms were to evolve over subsequent decades, however, the Uruguay version was relatively tame, though it did challenge the prevailing assumption that a free-market model would optimize the benefits for a developing country. Under Uruguay's state-directed development model, the introduction of the eight-hour day benefited labor; new social insurance programs were instituted; the country invested significantly in mass education; and the government moved

12. WORLD BANK, GLOBAL ECONOMIC PROSPECTS AND THE DEVELOPING ECONOMIES (1995). The 1913 figure was not reached again until 1973 when it stood at 11.7 percent having fallen to 7.1 percent in 1950, a relation that reflected the constriction of trade by the policies of the 1920s and 1930s, as well as the repercussions of the Great Depression and World War II.

in several ways to confront the foreign interests that were seen as dominating the local economy. Tariffs began to assume a protective character as well. Though the language then used was relatively mild compared with the disputatious policy polemics that later ensued in most of Latin America, foreign capital was already beginning to be viewed as minatory during this early policy transformation.[13] Even earlier than the Uruguayan developments, however, a special type of interventionism, one particularly relevant to our focus on international economic relations, had originated in Brazil when, early in the twentieth century, that country initiated the first of its coffee valorization schemes to try to stabilize the prices of that export commodity.

While Uruguay was building its Latin American version of a welfare state, however, at the other end of Latin America, in Mexico, a more radical, and far more violent, rejection of economic liberalism came to pass. What had started in 1910 as a fairly moderate liberal repudiation of dictatorship was transformed into the first of the great twentieth century social revolutions where economic nationalism became a hallmark. With its objectives promulgated in the 1917 Constitution, the Mexican Revolution announced a trajectory that was to subjugate market forces to overriding political priorities and ultimately bring into being an economy within a unique political context that was to be the envy of the whole region. Beginning in 1932, Mexico was to enjoy not only a distinctive political stability but also fifty years of uninterrupted positive aggregate growth, most of it at a high and relatively stable rate of expansion and with what for Latin America was relative monetary stability.

In between Mexico and the Cape of Good Hope, a variety of other intermediate regimes came into being: the *Estado Novo* of Brazil, Peronism in Argentina, and a variety of nationalistic versions of developmental states elsewhere. As another example of this pervasive change in policy, one might recall that before the dramatic, even stagey, Mexican nationalization of its oil industry at the end of the 1930s, nationalization had begun in the oil industry in Argentina in the early 1920s. And in the early and mid 1930s, Chile embraced a number of new statist measures to get greater control of its national economic life. In both Mexico and Chile, governments set up financial institutions in the 1930s that were later to evolve as major industrial development banks. Nacional Financiera (NAFINSA) and Corporación de Fomento de la Producción de Chile (CORFO) were two of a series of such institutions spawned throughout the region. In country after country, the railway system and the electric power systems likewise were taken into the public sector.

Nor was the sharp break with the past in economic policy confined to the Western Hemisphere. In 1917, Europe also began to experience the dawn of a new system of political economy when the Bolshevik Revolution swept aside Czarist rule and capitalism and installed War Commu-

13. SIMON G. HANSON, UTOPIA IN URUGUAY: CHAPTERS IN THE ECONOMIC HISTORY OF URUGUAY (1938).

nism as a drastically altered alternative to market economy. The experiment was initially a failure, and the New Economic Policy was soon introduced as the world's first privatization program, to get the economy back on its feet. But before the 1920s ended, the full-blown centrally planned economy was imposed with draconian measures that extinguished lives almost as comprehensively as it extinguished markets. But an even greater loss of life accompanied the post-World War II extension of this regime to China, and even in Central and Eastern Europe, the forcible imposition of a centrally planned socialist totalitarianism was to prove bloody and repressive.

For the most part, however, the European departure from economic liberalism was more gradual and much less costly in terms of human suffering, save for the National Socialism that arose in an economically prostrate Germany in the 1930s and quickly organized the country's economic life into an extraordinarily efficient, and productive, killing machine. Only the transition to Fascism in Spain in the 1930s occasioned significant casualties and the violence of civil war, while the earlier introduction of Fascism in Italy and Portugal came about with much less *sturm und drang*.

Elsewhere the transition from economic liberalism to governmentally guided and regulated mixed economies was both more varied in its path and far more humane in its manner of execution. In Latin America, for instance, the impact of World War I was to encourage an accelerated local industrial development as some of its export markets, those of Germany and Austria-Hungary, were cut off and access to others was hampered. Imports from continental sources dwindled, and tariffs designed for revenue purposes were in some instances raised to levels that implicitly provided a certain amount of protection for national manufacturers. Market forces, too, were beginning to modify policy, at least in the more advanced Latin American economies. Internal markets had grown, nourished by the export-led expansion that began around 1870 and assisted by the notable growth in national transport systems. Eventually urbanization put more households within reach of fledgling national producers, income and education levels rose, particularly as a function of export-based prosperity, and national human resources, particularly in the few countries of significant immigration, began to supply more of the skills needed to sustain industrial development. To some extent, these changes even affected Mexico as well, where the long Porfirian peace provided an investment climate hospitable for significant inflows of capital as well as the managerial and technical manpower needed to expand extractive industries, man the spreading railway system, and operate the banks that belatedly made an appearance in the country. It was in this period, too, that Latin America's first integrated iron and steel works came into operation in Monterrey in northeast Mexico.

In short, before the onset of the Great Depression, conditions had begun to build a local constituency for pro-industrial policies in the major countries, and government initiatives in support of the process were beginning to appear. Certainly this was the case by the 1920s, but in some instances it took place even earlier. In other words, a new segue in policy had begun, and by the time of the 1930s, the reign of economic liberalism had arguably ended. It took only the first World War and the post-war dislocations to begin eroding the margins of economic liberalism substantially. Protectionist policies spread, as in the Smoot-Hawley tariff in the United States and the Empire Preference scheme adopted in Britain soon after (having been rejected several times earlier in the century when the adherents of *laissez faire* were still strong enough to maintain free trade policies); social-democratic political power grew; and considerations of national security began to shape the domain of economic policy even during peacetime. The British government's leading role in establishing British Petroleum, for example, responded to the determination of Winston Churchill, then First Lord of the Admiralty, to switch the British navy and civilian fleet from coal to oil, thereby increasing their efficiency. Other considerations motivated a government that was far from socialist in complexion to create the world's largest broadcasting operation, the British Broadcasting Corporation (BBC), which was founded in 1922 and made a publicly funded corporation five years later.

In general, conditions more or less inexorably worked to enhance the role of government and the public sector in the economy even before the Great Depression served to expand direct and indirect intervention in almost all parts of the world—by a considerable magnitude. And this it did, even in the United States, which could reasonably have been portrayed as the bastion of market economy. In an effort to shore up economic life and introduce more equitable social relations, the New Deal created an overwhelming number of new economic initiatives and regulatory/stimulative programs: e.g., the Social Security Act; the Agricultural Adjustment Act; the Public Works Administration; the National Labor Relations Act; the Farm Security Administration; the Works Progress Administration; the Reconstruction Finance Corporation; the Civilian Conservation Corps; the Glass-Steagall Act; the Rural Electrification Administration; and the Tennessee Valley Authority, amongst others. Altogether these constituted an unprecedented effort in social engineering, however piecemeal and *ad hoc* it was in its details. After mid-1938, a capstone of sorts was reached with the work over two-plus years of the Temporary National Economic Committee, the famed TNEC, that undertook an unprecedented comprehensive examination of the economy to lay the basis for what would have been the development program of the later New Deal had not preparations for World War II begun even before the TNEC went out of business. Absent the disruption occasioned by World War II, public policy would almost certainly have been repositioned for years to come, changing the role of the public sector even more than it already had. While the earlier National Recovery Act (NRA), with the sweeping reorganization of economic life it envisaged, was declared unconstitutional, the role of the federal government continued to expand far beyond its customary boundaries, and the TNEC findings suggested that the outcome might not have looked too different from the structure of the economy projected by the NRA.

Further, as the Great Depression unfolded, this policy reorientation was intensified throughout most of the world and was carried into various types of planned economic systems to meet wartime exigencies. Even in Latin America, an important if pragmatic rebalancing was taking place in the 1930s, one that moved, for a variety of reasons, in the direction of industrial growth.[14] This objective emerged as the centerpiece of public policy in the 1940s when wartime exigencies further stimulated the growth of domestic manufacturing and the development of policies that were soon systematized into a rationale for deliberate industrialization by the new United Nations Economic Commission for Latin America (UNECLA).[15] Indeed, what was taking place in Latin America in the 1940s-1960s when import-substituting industrialization (ISI) set the tone for most public policy in the economic realm became the policy model that swept much of the developing world in the post-war and decolonizing period, whether sailing under the guise of socialism (as in India), nation-building, or some other policy brand name. State-guided and state-assisted industrial development, only rarely associated with agrarian reform (as in Mexico, South Korea, Taiwan, Bolivia, and in some measure India), was the watchword of the era that succeeded economic liberalism in much of the developing world, while social democracy, active macroeconomic management and spreading regulation characterized trends in the industrial center of the world economy.

By this time, moreover, the regime of central planning had been imposed on the countries of Central and Eastern Europe where the Council for Mutual Economic Assistance was established to coordinate relations among the European centrally planned economies, and China had also fallen into the communist bloc. In this policy era, as in others, the policy profile of each country was shaped by the particularities of its circumstances, including its legacy costs, the generally fluid structure of interests that constituted the state, the character of its factor endowment, and the

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14. Carlos F. Diaz Alejandro, Latin America in the 1930s: The Role of the Periphery in World Crisis 21-22 (Rosemary Thorp ed., 1984); Enrique Cárdenas, La Industrialización Mexicana Durante la Gran Depresión (1987); Sanford A. Mosk, Industrial Revolution in Mexico (1950) (seeing, in effect, the early industrialization as preface to the post-war burst of the manufacturing sector, but the same could be said of the other larger Latin American economies).

15. *See* J. Fred Rippy, Latin America and the Industrial Age 10 (1944) (offering the antecedent phases of this new policy); R.H. Whitbeck, Economic Geography of South America (1926); George Wythe, Industry in Latin America 65-67 (2nd ed. 1945); *see generally* Dudley Maynard Phelps, Migration of Industry to Latin America (1936). The preceding are four of the initial studies that shed light on early industrial development and the conditions that precipitated it. Of the many more recent monographs, two may be cited as exemplary: Stephen H. Haber, Industry and Underdevelopment: The Industrialization of Mexico, 1890-1940 (1989); Stanley J. Stein, The Brazilian Cotton Manufacture: Textile Enterprise in an Underdeveloped Area, 1850-1950 (1957).

production opportunities generated by interaction between its resource base and its available technology, on the one hand, and demand in national and international markets on the other.

There are reasonable alternatives in interpreting this sea of change in economic policy. Yet, all posit, implicitly or explicitly, to related sets of circumstances. The policy restructuring and policy instruments can be seen as policy responses to perceived market failures of a variety of types. The catalogue of such need not detain one though, as the most commonly encountered listings, while varied, are familiar enough. What may be less frequently appreciated, however, is that the institutional alterations sought under one guise or another may also be taken as the instruments for producing a new range of public goods: e.g., industrial stimulation as a centerpiece of policy; more stable economic systems better able to achieve a more dynamic and resilient performance; and what might be called a social-democratic distribution of income, wealth, and access to the opportunity structure (the New Socialism of British Labour). A more widespread social safety net was also a characteristic objective of this period of policy change. Whether we take the aforementioned as the installation of the mixed economies of managed capitalism or a reaching for post-capitalist economic orders of one sort or other, the collective outcome can be seen as a public good in almost exactly the same terms that we, more conventionally, characterize national defense or resource conservation schemes as public goods. As the post-war regional integration movement developed in Europe, the public goods included strikingly innovative regional political and administrative structures as well, culminating in what could be reasonably claimed as the world's first transnational economic system in the post-colonial age.

Yet, amidst the pervasive recourse to statism, in either a light or a concentrated dose, there were exceptions, as was the case in the heyday of economic liberalism. During the era of ISI, for instance, Brazil, Mexico, and Colombia all sagaciously adopted special programs to promote export diversification and sought to link this with the industrial drive that was central to the policy design in each. In Peru under President Odría, there was even an interesting, if brief, prefiguring of the neo-liberal policies that much later swept the continent,[16] policies that triggered a remarkably high rate of capital accumulation, inward foreign investment, and macroeconomic growth, based on a dynamic export performance. Both South Korea and Taiwan also abandoned the inwardly oriented development pattern on which they first embarked in the post-war period and linked their underlying interventionist bent to export diversification and growth, though the public sector continued to play a singularly important directive role. Indeed, the general drift into interventionism at the national level took place in a world context in which global policies were moving to enhance the efficacy of market processes. Such global

16. MANUEL FUENTES IRUROZQUI, UNA EXPERIENCIA INTERESANTE EN EL PERÚ: DEL INTERVENCIONISMO A LA LIBERTAD ECONÓMICA (1952).

policies included the series of General Agreement on Tariffs and Trade (GATT) negotiations that were trying to liberalize international economic transactions; the International Monetary Fund (IMF), which was trying to promote a monetary stability that would be conducive to a renewal of flows of international investment; and the World Bank Group's efforts to jumpstart investments so as to enable the recipients of its technical assistance and funds to generate more capital domestically and attract capital from the capital centers.

In short, in consequence of the foregoing trends and developments and thanks to the spreading commitment to Keynesian macroeconomic management, public sector expenditures accounted for an ever larger share of output, government employment grew as a portion of the labor force, and through spreading regulation and higher expenditures, an increasing emphasis was put on the production of public goods and redistributive policies in even the countries that had the bastions of capitalism.[17]

What remained, and was soon supplied, was a comprehensive theoretical rationale to guide and justify the pervasive interventionism in Latin America. While some of this rationale came from scholars, universities, and public intellectuals influenced by varieties of socialism and Marxism, it was the extraordinary work of the UNECLA that formulated the most complete operationalization of the interventionist project. From Mexico to the Southern Cone there was a growing receptivity to the UNECLA message because the policy domain was increasingly cohabited by three groups who found common interest in elaborating the profile of interventionism: (1) the bureaucrats/technocrats who formed and administered policies, (2) the intellectual hangers-on who served as camp followers for the growing army of workers and managers in the state and parastatal sectors (the state bourgeoisie), and (3) the politicized labor movement that—at least in Argentina, Chile, Brazil, Costa Rica, Peru, Colombia, Venezuela, and Mexico—was beginning to exercise its newfound importance as a key constituency in support of populist policies.[18]

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17. As a very small sample of a huge literature on the state and the economy, a literature made vastly larger still when economic planning, the growth of the public sector, and the state and economic life, and similar expressions are added as search terms, *see generally* SOLOMON FABRICANT, THE RISING TREND OF GOVERNMENT EMPLOYMENT (1949); SOLOMON FABRICANT, THE TREND OF GOVERNMENT ACTIVITY IN THE UNITED STATES SINCE 1900 (1952); RICHARD A. MUSGRAVE & PEGGY B. MUSGRAVE, PUBLIC FINANCE IN THEORY AND PRACTICE (3d ed. 1976). For interpretive works, *see* JOHN KENNETH GALBRAITH, AMERICAN CAPITALISM: THE CONCEPT OF COUNTERVAILING POWER (1980); R. JOSEPH MONSEN, JR., MODERN AMERICAN CAPITALISM: IDEOLOGIES AND ISSUES (Jesse W. Markham ed., 1963); MURRAY L. WEIDENBAUM, THE MODERN PUBLIC SECTOR: NEW WAYS OF DOING THE GOVERNMENT'S BUSINESS (2d prtg. 1969); BRINGING THE STATE BACK IN (Peter B. Evans, Dietrich Rueschemeyer & Theda Skocpol, eds., 1985); ANDREW SHONFIELD, MODERN CAPITALISM: THE CHANGING BALANCE OF PUBLIC AND PRIVATE POWER (2d prtg. 1966).
18. The following typify the huge literature that emerged to link organized labor to the policy machinery. *Compare* ROBERT J. ALEXANDER, LABOR RELATIONS IN ARGENTINA, BRAZIL, AND CHILE (1962), *and* JAMES L. PAYNE, LABOR AND POLITICS IN PERU: THE SYSTEM OF POLITICAL BARGAINING (1965), *with* JOHN J. JOHNSON,

This contextualization of policy is of more than background interest, for it helps to explain, as Edwards, Dornbusch, and others have pointed out, the rise of macroeconomic populism with the manifold distortions it bred.[19] The etiology of this pathological condition need not detain one here, but suffice it to note that in many, if not most cases, it served in time to undercut the viability of the ISI policy model. Rent seeking was pervasive; the export sector was most often undermined; inflation tended to become chronic, as did balance of payments problems; and only in three countries, Colombia, Brazil, and Mexico, did attention begin, in the 1960s, to shift to export diversification and export-oriented industrialization as a way out of increasingly constrictive economic relationships. While the production of a policy style or bias is a complex social process that responds to the circumstances particular to each case, economic nationalism, very much as Harry Johnson and his collaborators described it,[20] characterized the policies of developmentalism that were put in place on a foundation of protectionism (via tariffs, import quotas, exchange rate policies, and so on), the nationalization of utilities, state entrepreneurship in basic industries (and sometimes not so basic industries), a steady rise in state spending and external borrowing to cover the deficits of the budget and of the growing number of parastatal enterprises, discrimination against the export sector and agriculture, and so on. As a Marxist might have put it, internal contradictions spawned by the prevailing system design abounded as time went on.

The experience of endemic and epidemic interventionism was, however, not altogether uniform across the continent. The timing and policy configuration of development reflected the particularities of each country's political process and economic situation. A remarkable continuity in industrial policy characterized both Brazil and Mexico, for instance, although the two countries differed significantly in how those policies came to be and how they worked out.[21] And policy making in Argentina was always a *sui generis* experience, however much it may have fitfully resembled those of other major economies. In addition, an early experiment with the liberalization of policy even took place under the government of General Manuel Odría in Peru (1948-1958) where it produced very high capital formation rates, high growth rates, and a generally exceptional

POLITICAL CHANGE IN LATIN AMERICA: THE EMERGENCE OF THE MIDDLE SECTORS (1965) (interpreting a key development in the policy arena in terms of what came to be called the state bourgeoisie).

19. *See generally* MACROECONOMIC POPULISM IN LATIN AMERICA (Rudiger Dornbusch & Sebastian Edwards eds., 1989).

20. *See generally* ECONOMIC NATIONALISM IN OLD AND NEW STATES (Harry G. Johnson, ed., 1967).

21. *Compare* ANGUS MADDISON ET AL., THE POLITICAL ECONOMY OF POVERTY, EQUITY, AND GROWTH: BRAZIL AND MEXICO (1992) (tracking the similarities and uniqueness of each—one in an extremely insightful series of comparative studies), *with* RICHARD D. MALLON & JUAN V. SOURROUILLE, ECONOMIC POLICY MAKING IN A CONFLICT SOCIETY: THE ARGENTINE CASE (1975) (showing how little Argentina resembled the other countries, though there was conflict aplenty to be managed in all).

national economic performance—while it lasted.[22] Clearly, the routes by which the veering into interventionism took place varied substantially from country to country.

In Latin America and elsewhere in the world, conditions in the 1970s and 1980s prepared the way for a sweeping marketization of the economies. To wit, the dynamics set in motion by the increase in petroleum prices in the 1970s and the over-borrowing this supported, in both oil exporters and oil importers, brought down the populist political regimes and bureaucratically managed economies that predominated in Latin America, though Chile led the way, thanks to the complete breakdown of its economy and the hyper-inflation that was spawned by the economic adventurism of the Allende government. In England, the pioneering case was provided by the rise of Thatcherism in the United Kingdom. Likewise, in Spain, policies changed during preparations made for joining the European Economic Community. Similar policy shifts came about elsewhere in Western Europe. About the time that policy reform began in other countries such as India, the rumblings of new market friendly policies were heard in Chile, Mexico, Venezuela, Peru, Argentina, Brazil, and some of the small countries of Central America. In the United States this re-orientation took the form of deregulation in industries such as natural gas, oil, airlines, telephonic communications, and other branches of production. For that matter, in time, somewhat similar policy shifts were to appear in countries as different as New Zealand, Morocco, Turkey, and others.

Most dramatically, markets were reintroduced to the erstwhile communist countries, both those of the collapsing Soviet bloc, when glasnost and perestroika failed to rehabilitate the economic systems sufficiently, and, a bit earlier, in the People's Republic of China (PRC) following Nixon's visit. Indeed, leaving aside several cases of early reformers (Yugoslavia, Hungary, and Poland), the breakdown of the Communist bloc triggered a process of transition that involved a whole wave of fundamental changes in the organization of economic activity in Central and Eastern Europe, the former Soviet Union, and the PRC. In short, the victory of market-managed economic processes (the so-called Washington Consensus, which is called neo-liberalism in Latin America) seemed almost complete.[23] Complementing the national policy changes, international economic organizations saw the eight rounds of the GATT series of negotiations come to fruition in the General Agreement on Services and the establishment of the World Trade Organization, the World Intellec-

22. MANUEL FUENTES IRUROZQUI, UNA EXPERIENCIA INTERESANTE EN EL PERU: DEL INTERVENCIONISMO A LA LIBERTAD ECONOMICA (1952).

23. SEBASTIAN EDWARDS, CRISIS AND REFORM IN LATIN AMERICA: FROM DESPAIR TO HOPE (1995) (providing a convenient overview of the reform drive in Latin America); *see generally* POST-COMMUNIST TRANSITION IN EUROPE AND ITS BROADER IMPLICATIONS (Mario Zucconi ed. 2004) (providing a recent assessments of the process in the formerly centrally planned economies of Europe); TOMASZ MAREK MICKIEWICZ, ECONOMIC TRANSITION IN CENTRAL EUROPE AND THE COMMONWEALTH OF INDEPENDENT STATES (2005).

tual Property Organization, and a proposed, but, tellingly, not yet enacted, Multilateral Agreement on Investment.

The stalling of this last project, however, along with the paralysis evident in the Doha Round, at least pose the question of whether society has reached the limits of the absorptive capacity for reform. Does society today confront the exhaustion of the neo-liberal model just as the antecedent liberal and statist models also ran out of steam? To explore this question, society should turn to structural features likely to gain in prominence over the decades ahead rather than focus too closely on the particulars of such cases of institutional recidivism as found in Argentina, Bolivia, Ecuador, Nicaragua, and Venezuela, governments in which a wavering commitment to policy reform, if not indeed its repudiation, suggests that the case for the neo-liberalism of the Washington Consensus is no longer as compelling as it once seemed.

III. THE MURKY PATH AHEAD

On the short-term horizon, three realities indicate a likelihood that national and regional security policies will gain priority in public policy amongst the countries who feel threatened: 1) the distinct turn towards economic nationalism and the reassertion of authoritarian rule in Russia; 2) the unpredictable but deeply troubling outlook for militant movements in the broad Islamic world and the international terrorism emanating therefrom; and 3) the new self-assertiveness of a PRC in which there appears to be no significant likelihood of political democratization. The inability of Israel, after sixty years, to find peaceful relations with the Palestinians and the eruptions of sectarian violence in once-tranquil Lebanon suggest that conflicts like the Thirty Years War and the One Hundred Years War are by no means consigned to the history books. The so-called Peace Dividend, to say the least, may not be declared for years to come. Meanwhile, security considerations will feed the defense portions of public budgets, virtually ensuring that public sectors will necessarily continue to consume substantial portions of the available resources in the interest of self-protection.

Defense and internal security considerations inspired by threats from abroad and terrorism are not, however, the only matters that may work against the release of resources for private aims. Long-term security, in every sense, requires that an increasing number of countries confront the need for slowing, if not halting, environmental degradation on land and seas. Environmental protection or, even more resource consuming, environmental restoration, defense against the cross-border transmission of pathogens of all sorts (those afflicting the human population and those targeting flora, livestock, poultry, and fisheries), and even the effective control of cross-border population movements—all lie significantly within the scope of public-sector action, however much private sector cooperation may be called for. Similarly, controlling pollution and the contamination of land, water, and air resources may spur disagreement over rates of change and the most efficient means of effective positive changes, but resource conservation and rehabilitation, in the broadest sense, are sure to enhance the volume of public expenditure and/or regulatory action. When two especially critical resources, energy and water, are highlighted, it is clear that we are dealing with problems that require at least as much non-market action in the form of policy initiatives and fiscal outlays as regulations to reform the structure of costs and benefits in a market context. On top of the aforementioned, it has become increasingly evident that we confront, both here and abroad, an already significant and growing amount of deferred maintenance in infrastructure so that repair and rehabilitation here, no less than modernization, are sure to increase the social demand for public expenditure and regulation. The problematic aspect of resource allocation, noted long ago by John Kenneth Galbraith in *The Affluent Society*,[24] has only grown more acute as time has passed. To be sure, in the European Union the production of key public goods at the regional and national levels has been more assured than in the United States, let alone in the third world and newly industrializing countries. But conflicts over the Kyoto Agreement and currently envisaged substitutes indicate that the intensity of this issue has only increased over the years and that a growing constituency for significant remediation is coming into its own with less and less willingness to ignore free-rider problems at the global and national levels.

In much of Latin America, and the third world in general, the highway and other elements of the network taper off once one moves beyond the major population centers. And owing to the years-long neglect of public investment in repairs and maintenance, substantial legacy costs are faced in nearly all countries. The same can be said of all kinds of infrastructure available in provincial population centers, not to mention the countryside, where rural electrification, farm to market roads, rural health systems, agricultural extension services, crop information and storage systems, the requisites of modern animal husbandry and poultry raising, and so on are notably deficient. Even the more readily targeted projects like port modernization have a long way to go to reach the level at which substantial positive externalities are generated for all the other economic processes that depend on them.

The two sets of factors already noted would seem to leave little prospect that business as usual on a market basis will provide the scenario for the future. There are others, however, that work in the same general direction. For one, today's globalized competition is driving more and more recognition of the key importance of intangible capital—knowledge capital, human capital, and organizational capital—in today's and the future world market, as well as the communication and transportation infrastructure prerequisite to their effective utilization. While much of the necessary new organizational capital can be supplied by the private sector, as has long been the case, it is obvious that the public and indepen-

24. John Kenneth Galbraith, The Affluent Society (2d ed. 1958).

dent sectors play a critical role in the supply of knowledge capital and human capital, with a corresponding need for additional resources for each to perform as it must. Indeed, given the time horizons involved in the technologies needed to deal with some of the most fundamental issues, progress towards their resolution is almost certainly predicated on substantially enhanced public-sector support of research and development. Moreover, these considerations will necessarily be a prerequisite for successful economic performance in virtually all the economies of the world, for there is no foreseeable basis whatsoever to anticipate any diminution of the market pressures for enhanced competitiveness.

Quite apart from these pressures, in a growing number of countries, now including Asian countries such as Japan and China, the aging of the population will place additional demands on the public budget and not-for-profit institutions. These demands include pressures to increase health, housing, and welfare/custodial services for populations whose medical and related needs themselves place significant pressure on both public budgets and those of eleemosynary and philanthropic institutions to alter the pattern of production in ways that reflect the changing social demand. The inability of the United States, for example, to come up with viable market-based solutions to this congeries of issues creates at least a presumption that whatever resolution of these is eventually found, it will not be found on the playing fields of commercial firms. For that matter, the long postponed social investment, in broad segments, of the younger and so-called disadvantaged population in the United States and developing countries, with its problems of addiction, criminality, indiscipline, and technical incompetence, would appear to reinforce the pressures for a significant redesign of public policy and expenditure patterns in ways that do not, except in the very long run, release resources from the public sector. Considering the age demographics that prevail throughout most of the lower income countries, this factor is likely to bulk even larger as a fiscal consideration. Increasingly, social science research has shown that the alleviation of poverty is much more than a question of morality, good conscience, or even keeping a disruptive discontent in check. What may be called, for convenience, a social democratic distribution of income and resources and access to opportunity has clearly emerged as an important conditioning factor in the aggregate wealth and non-income components of welfare an economy is able to generate. A glimpse at the institutional and policy requisites of such a society can be had in the prevailing socio-economic arrangements of the European Union. There, transfer and social investment programs and adjustment mechanisms have proliferated to address the changing needs of a dynamic economy, but the accumulating scholarly literature provides an increasingly clear understanding of why this should be so for any economy, from developed to underdeveloped.[25]

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25. A great many studies have linked poverty and inequality to limitations on growth. One recent source worth consulting, as it tracks the implications for public invest-

The foregoing pressures, one might hypothesize, are reinforced by other long-term shifts in social composition. One such shift is the increasing urbanization of the world economy and the huge social reconfiguration associated therewith. This development, while efficient in some aspects of resource use, also increases the need for outlays on all types of urban infrastructure: physical, institutional, and cultural. The need for the former two, which bear directly on the size of public budgets, is obvious. Urban economies and the production systems associated therewith require more capital of all kinds to generate the needed and desired goods and services for shelter, nutrition, other aspects of the customary consumption basket, education, social welfare, administration, financial service, information services, health, public safety and sanitation, traffic management, and so on. But it is also the case, apparently worldwide, that as incomes and education rise, the demand for cultural production and heritage conservation is elastic with respect to both. In no known advanced society does the market alone support the range of cultural output for which there is growing social demand, though perhaps this has been true at least as far back as the days of *panem et circenses*, the original Olympics, and the triumphal processions and constructions of ancient Mesopotamia and Egypt. Evidence abounds that the same held true in the Persia, China, and India of antiquity as well as in Southeast Asia. Both the public and the independent sectors' needs must grow for the aggregate supply to match social demand in these areas.

The growing salience of these issues, which call upon the resources of the state, seems to argue for a re-expansion of the role of the public sector, though not necessarily in its traditional forms, and its projection into increasingly complex social and cultural territory. Such, for example, are the implications of a complex of governance issues that have been increasingly recognized by the World Bank and others in the development community as critical for sustained development. There is no reason to believe that these can be resolved on a costless basis or even in the short term. The restructuring of public administrative systems at all levels is, in fact, a time- and resource-consuming process even when, in the longer run, the outcome may be resource-generating. Besides these long-term conditions, however, there are other factors, some of which may be more

ment and public expenditure, is GUILLERMO E. PERRY ET AL., INEQUALITY IN LATIN AMERICA: BREAKING WITH HISTORY? (David de Ferranti ed. 2004), which expresses much of the experience and prior research of the World Bank. The several World Bank World Development Reports that focused on poverty—those for 1980, 1990, and 2000/2001—are also basic in tracking relations between poverty and growth policies. For a key set of studies that relates development practice to one of the most intractable areas of poverty and inequality, *see generally* INDIGENOUS PEOPLE AND POVERTY IN LATIN AMERICA: AN EMPIRICAL ANALYSIS (George Psacharopoulos & Harry Anthony Patrinos eds., 1994); INDIGENOUS PEOPLES, POVERTY AND HUMAN DEVELOPMENT IN LATIN AMERICA (Gillette Hall & Harry Anthony Patrinos eds., 2006). Although redistribution goals were supposed to be part of the Alliance for Progress policy era, the 1960s, little was actually accomplished, and no great relief of poverty occurred in the subsequent Second Decade of Development.

operative in the short term and more circumstantial, that may interfere with achieving the perpetual nirvana of market economy.

As examples of a multitude of other issues that may bear on the rebalancing of the public and private sectors, one may ponder: (a) the implications in policy and public action for the management of domestic and cross-border water resources; (b) the redistribution of investment resources into the hands of government not heretofore associated much with outward foreign investment; and (c) the repeated disruption of real economic processes by problems originating in the financial sector. The first of the aforesaid generates problems that patently require collective public action for their resolution. This article will close by briefly looking at the other two.

Even in this advanced era of trade and investment liberalization, some Western European and other governments retain and support the concept of national champions and use golden shares and the like to intervene in proposed mergers, the geographical relocation of production, and so on. Despite some liberalization, the Japanese, South Korean, and Indian governments, notwithstanding the PRC, still maintain close scrutiny of inward foreign investment, at least in what are viewed as critical fields, and have devised a variety of policies to contain and control inward foreign investment. Considerations of national security have sometimes coincided with the aforementioned or even spread those practices, as when the U.S. legislative branch made known preemptively its displeasure over the acquisition by China National Offshore Oil Corporation (CNOOC), through a perfectly normal corporate buy-out of oil resources held, chiefly abroad, of a U.S. oil company. Very much the same considerations figured in similar congressional posturing to discourage the acquisition, by a Middle Eastern parastatal firm, of port management contracts in several U.S. shipping centers. In both cases, the fact that the deterrence came from the U.S. legislative branch rather than the U.S. executive branch indicates that a popular antipathy, akin to that mobilized (unsuccessfully) against North American Free Trade Agreement (NAFTA), provided support for measures that purported to safeguard the national interest in much the way that restrictions on foreign ownership of broadcasting companies and on the export of certain strategically important technologies have long been accepted political wisdom in the United States.

Already it is possible to detect growing misgivings, misgivings that may ultimately influence the policy community in ways as yet difficult to anticipate, over the buildup of the multi-billion dollar portfolios of sovereign wealth funds from reserve-rich nations, funds generally lacking in transparency. Specifically, the China Investment Corporation and similar funds established by Russia, Singapore, Kuwait, Qatar, the United Arab Emirates, Venezuela, and elsewhere have established such concerns. Though some funds, from the United States and Norway, seem to adhere to normal investment criteria and levels of disclosure that make them less potentially pernicious, many of the sovereign investment funds are, like hedge funds, black boxes that are highly secretive about their operations. Whether their latent objectives coincide with their manifest aims is, under the circumstances, hard to ascertain. Given the present trends in oil markets and the huge holdings of U.S. public debt in China and elsewhere, it seems likely that the resources commanded by these organizations will grow substantially over the years ahead. Though estimates of their size vary, generally running in the neighborhood of two trillion dollars, some projects will reach the range of ten to fifteen trillion dollars by 2015. The total reserves of dollars commanded by other governments are, of course, much larger still, of which a substantial portion is held as international reserves transferable into investments.

Lastly, and somewhat surprisingly, considering the lengthy accretion of regulatory experience and design expertise that began, in the United States, with the national banking era, a whole series of events have revealed previously unsuspected vulnerabilities in the financial superstructure and defects that have repeatedly, in recent time, shown, as Mrax, Veblen, and Hilferding long ago indicated, that the real economy can suffer substantial damage owing to critical shortcomings in the financial system. The collapse of major banking institutions in the oil-patch crisis of the 1980s, the savings-and-loan crisis of the same decade and the regional crises in banking, the shakiness of hedge funds evident in the Long Term Capital Management (LTCM) debacle, the Enron scandal, and today's problems in sub-prime real estate finance and the weakness of major investment banking institutions have repeatedly drawn attention to the fact that financial predation, on a huge and devastating scale, has shown an astonishing ability to escape or bypass the preventive regulatory regimes that have been erected over many, many decades. Even such long established quasi-public institutions as Fanny Mae and Freddy Mac have been harmed by the financial chicanery of the current decades. The growing misgivings about the operations of private equity funds and hedge funds help make it clear, in this context, that the very financial system that undergirds the workings of capitalist economic organization has run into a conjunction of market failure and regulatory failure on a serious scale, a problem that has also been manifested abroad in crises in the financial systems of other countries from Mexico to Argentina and beyond. The recurrent financial crises abroad, whether Asian, Latin American, Russian, or otherwise, suggest that there is ample room for rethinking institutional design and structure in most parts of the world, even in countries in which such old fashioned needs as more transparent capital markets are still at the top of the reform agenda. If we enlarge our field of vision to the periphery of the financial system to include the shenanigans that brought down Enron, the agenda for public action becomes greater still, and we can safely assume that such problems are no less pernicious in countries where the oversight and regulatory regime is much less developed. In short, the pathologies of financial organization, even in the baroque design of today's systems, show that the need for public remedial action is seemingly unending.

Provisionally, therefore, one may conclude that there is a strong likelihood that the neo-liberal policies of recent decades may be giving way to a period in which globalization has not so much cured structural problems as it has magnified them. What seems needed is a reincarnation of the old TNEC, but this time with a global focus on the Temporary International Economic Committee (TIEC), that, in exploring the recesses of the financial superstructure and production enterprises of a globalized economy, could point the way to comprehensive reform—yet again. We need not anticipate a substantial retreat from a liberalized trading system, nor any return to the era in which state management was an expanding feature of national production systems. What would seem to lie in the offing, however, is a much more complex and nuanced regulatory regime that meshes national efforts with international ones in its focus on domestic economic organization and the international extensions thereof.

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