UNIT 7 CURRENT DISCOURSE ON STATE AND MARKET

Structure

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7.1 INTRODUCTION

For better or worse, contemporary discourse on Latin America has declared successful both the processes of democratisation and economic liberalisation, albeit with the recognition that both the processes are suffering some shortcomings. Meanwhile, democracy has been declared as 'consolidated'. Similarly, markets have been firmly established as the engine of economic growth and the state has found new vocations of facilitating and safeguarding the marketplace. Again, this is notwithstanding the failure of market mechanisms in Mexico in 1994, Brazil in 1998 and Argentina in 2002, besides the region wide economic dislocation.

It is to be noted here, that while democracies are declared as 'consolidated', they have not shed their illiberal character of the transition period; and in all likelihood they will survive for very long in the absence of any alternative. This is their major difference with the legitimate and 'consolidated' democracies of the 1960s which had not survived the challenge of the conservative military coups (they had also faced the challenge of another alternative in the form of revolutionary movements). Similarly, Latin American states had defended and upheld the state-centric ISI strategy of development for nearly half a century against the alternatives presented by the radical revolutionary movements as well as the foreign corporations and their governments. But the ISI strategy has long been jettisoned in the face of the neo-liberal onslaught in the 1980s. Today, neo-liberalism also has no alternative, ironically even at the intellectual level.

7.2 INTERSECTION OF MARKET AND STATE

The reduction of the role of the state and its replacement with the self-regulating market occupies the principal position in the economic agenda of Latin American governments. It is assumed that a drastically reduced state would allow for the emergence of capitalism which is independent of the public sector and capable of combining economic expansion with fiscal equilibrium.

The first tools used by the majority of countries in the region to achieve this objective were the stabilisation programmes in the 1980s. Varied stabilisation programmes—orthodox and heterodox—had involved reducing public expenditures through three main policy actions: freezing public sector salaries, removing subsidies and protectionism from the private sector, and drastically reducing public investments. Appropriate policies and institutional changes have also been carried out to realise the goal of a reduced public sector. It was argued that reduction of the public sector is necessary to create proper business climate. Important to note here is the fact that the purpose of all these institutional and normative reductions in the public sector is to facilitate the emergence of private capitalism. In other words, private capitalism is to replace the state capitalism.

Admittedly, the entrepreneurs of various hues—ranging from currency speculators to portfolio investors, from the street vendors to high skilled professionals—are all the role models of market-based capitalism. Private business interests are responsible for productive investment, while the state is supposed to concentrate on public goods and relief for those social sectors which are most adversely affected by the transformation in the market-state relationship. There are two components to such a transforming relationship: privatisation of public sector, which means substitution of public investment by national and foreign private investment. The second component is commercial liberalisation, which means exposure to the marketplace as the disciplinarian and enforcer of maximum efficiency.

The emerging neo-liberal model of development is thus based on fiscal and monetary discipline, free trade and open markets, and a minimal role for the state in the economic sphere. Such a development model has already wreaked far-reaching economic changes virtually in all the countries. A notable point here is that not all the expected economic changes have been desirable or healthy. For one, rational entrepreneurs—capable and motivated—have not appeared, except may be some in Brazil and Chile. Moreover, what to say of the public, even the private investment of the right kind of magnitude has not materialised except for the category of short-term portfolio investment. It was told that markets are get levellers; in reality, nothing can be more far from the truth. Social situation has continued to deteriorate with increases in inequalities, unemployment, family-related social violence.

No doubt, states in Latin America were not angelic. They were 'rentier' states that skimmed off so much of productive investment, indulged in deficit financing, reckless borrowings, and spawned inefficient businesses. These developmentalist states by the late 1970s had become fragile and vulnerable and showed a good deal of ineptitude and incapacity to rectify the economy or check the distributive pressures. Even the recourse to coercion and violence by the bureaucratic authoritarian regimes had not fully redressed the economic and social malaise. But the remedy of market capitalism that is being administered now is worst than the diseases under state-centric capitalism.

i) The limited role for the state in economic matters implies a market which is increasingly unregulated. The ideal principle of 'free' market is guiding national economic policies as well as regional economic integration. The reduction of the role of the state is not confined to a decrease in its direct participation in productive activities, but also to a lack of state participation in the organisation of the market. What it means is that there are only few structures to mediate the enormous power of economic resources in this kind of market. Such an unbridled and unregulated market forces threaten the very neo-liberal model of economic development. Paradoxically, the neo-liberal model requires a state which is smaller and less interventionist, but which is capable of organising markets in such a way as to combine the interests of the private business with the needs of the society as a whole. A new type of state intervention could therefore help achieve a better distribution of costs and benefits from the privatisation policies. But neo-liberalism is opposed to the very idea of any state regulation.

ii) The reorganisation of markets and of the relations between state and the society presuppose an institutional transformation that can only be attempted by a strong (even it be small) state. Yet, this is what is most notably lacking in the kind of markets that are emerging in Latin America today.

iii) In consequence of the absence of state regulation, economic power has come to dominate in ways that are much more extreme than is customary in developed capitalist countries. Closer nexus of the private business and the elected governments, and institution of 'neo-corporatist' control mechanisms such as the 'production agreements' indicate the reality of a harsh domination by the business interests. In general, there has been an 'informalisation of the formal sector' of the economy as labour market regulation has increasingly been left to the market forces. Actors, which lack economic resources, are quite literally at the mercy of market.

iv) The unrestrained and unregulated market talks of social safety and other programmes to alleviate the consequences of structural adjustments. There may be poverty alleviation programmes and employment generation schemes; however, any thought of altering the structures of poverty and inequality has simply vanished. One does not have to be a socialist or a revolutionary to think of changing the structures of poverty and inequality. These are supposedly also part of capitalist mode of development. However, in the neo-liberal model of economic development, these are not even on the agenda. There is only the general assumption that market-generated prosperity will automatically and in due course resolve such structural challenges. Obviously, neo-liberalism in Latin America is not even interested in discussing these matters. Rather, it is reinforcing an invidious market logic in social relations, which emphasises individual social mobility through the economic opportunities that growing markets can provide. The dominant value that the market is fostering is individual and private solutions to problems that are collective and structural in nature.

v) The flip side to the domination of unregulated market is the growing influence of business interests, especially those connected with international finance capital, in the politics of Latin American countries. Their preponderant economic resources and their position as the engine of economic growth endow them with tremendous political influence and power. So long as their influence and power is institutionalised, for instance, through government-business councils etc., it is positive. It may even be a welcome step because under the state-centric models of development, there were not many institutionalised mechanisms to provide for state-business interface. If however, such influence and power of private business is exercised through less formal channels and/or undemocratic ones—as may be the case in a number of countries—then the situation is quite dangerous. In simple words, those who move markets may dare to have access to the formally unaccountable state power, as long as state is informally accountable to them.

vi) An important by-product of the dominance of economic resources in the neo-liberal model of development is the concomitant decline in the political influence of actors which formally enjoyed a lot of influence due to their control over symbolic/ideological resources. This is best evident in the decline of the political influence of Church and the left-oriented political parties. Perhaps more importantly, the actors, which had enjoyed tremendous power through their access and control over the state apparatus particularly the military, may have declined appreciably. The military, in particular, continues in most cases, to suffer from the lack of control over its economic resources, which in turn helps circumscribe its political role to the more traditional one of a power broker in times of crisis. One does not hear any more of the grand geo-political visions and developmentalist projects, armed forces had developed during the era of state-centric model of developments. One wonders, what the national missions like that of armed forces in the market-dominated polities are. Besides, the position of armed forces is yet another instance of the fact that neo-liberalism is not leaving any alternative, at least for now.

vii) Markets are premised on and practicing social exclusionary policies and states can do nothing about it. While job growth—mainly in the informal sector of the economy—has contributed in some countries to the fall in poverty rate, its effects on income distribution have remained extremely limited. All empirical evidences to date demonstrate that Latin America's historical problem of social inequality has not been effectively addressed by the new economic policies. This, in turn, reflects the fact that reductions in poverty have been almost entirely the result of economic growth, not social policies. However, as serial financial meltdowns in Mexico, Brazil, and Argentina indicate, such jobs could be very transient and precarious. Even in the 'successful' economies like that of Chile, the precariousness of employment in general is an important characteristic of this kind of market development.

In sum, the markets which are emerging throughout the region are characterised by little regulation, a minimal state presence, an accentuation of liberal individualism (as opposed to a more collective vision of society) and an exclusively pro-business orientation—especially towards the big foreign-owned business. Such markets, in turn, are supporting a peculiar form of capitalism, which is of a predatory nature. It is a capitalism, which hunts and thrives on those without economic resources—the popular sectors, the uncompetitive industries, etc. It deprives the state of resources through its policy prescriptions, and even undermines important aspects of social life and the common good. It is a process, which has its own dynamic and tends to disproportionately reward those who already exercise power, particularly economic power. This predatory capitalism is reminiscent of the predatory capitalism of the late nineteenth and early twentieth centuries in the Western capitalist world. The rise of labour and other powerful social and political actors had worked to rein that kind of a predatory capitalism and had succeeded in erecting the welfare state. It is hoped that the present predatory capitalism will also meet its nemesis. The spread of various movements such as those of women, indigenous communities and environmentalists are all working to build new relationships and erect new state institutions that can correct many, if not all, of the pernicious elements of modern day predatory capitalism.

There is however no inevitability about such a counter reaction to emerge. Certainly not in the immediate future, such forces are likely to arise. The fragmentation and atomisation of civil society and the weakening of actors such as the organised labour and the left-oriented political parties—which were responsible for weakening the predatory capitalism at the turn of the 20th Century—make it difficult to identify any particular actor or actors which could effectively pressure to check and modify the predatory capitalism today. Social movements, which had played an important role during the transition phase, are finding it difficult to adjust to the new political and economic context once the transition to democracy took place. Moreover, it is not clear what such changes, as and when and if at all they take place, would entail. At the beginning of the 20th Century, ideas of Max Weber, Karl Marx and Keynes had enabled the crystallisation of several alternatives that counter political actors had appropriated. Today, the counter intellectual reaction, as evident in the form of anti-globalisation ideas and movements, is only in its infancy. Moreover, Latin America is not Europe. At the turn of the 20th Century, Europe was able to tame the predatory capitalism but Latin America was its worst victim. Today, it is the same story; and it may be much worse with democracies legitimating the operation of this kind of an unbridled, predatory capitalism.

7.3 DECLINE OF STATE AND REARRANGING ITS CAPACITIES

The declining role of the state and its reduced capacities under market-based economies is an event of historical importance in Latin America. Not since Independence, state has had to face such a situation. The 'political' and the 'public' have always had a special connotation in Latin America. Politics, both for the state and its opponents, had always been an instrument to bring about, whatever be, the desired structural changes. The object of all politics, conducted through violent or parliamentary means, had always been the capture of state structures. It was the state, which would make both development and democracy or their reversal possible.

The great resource export boom since the second half of the 19th Century was made possible by a highly centralised authoritarian state. The state by coercively excluding and marginalising the vast segments of populations, had made both political stability and economic development possible.

State was even more central in the era of developmentalism. It had shaped the politics by deciding the inclusion-exclusion issue, status and strength of various social classes and political actors. This was particularly so during the phase of populism. State was crucial not only to the success of import substitution industrialisation but also to effect the redistribution of resources. Albert Hirschman has written about the "social and political matrix of inflation". The developmentalist state had affected redistributive policies mainly through inflationary and other economic measures. "Inflation constituted an implicit process of state intermediation that partially veiled the expropriatory and redistributive effects of public policies." As has been observed elsewhere, the 'statist model of politicisation' had suffered from inherent instability and a near impossibility to work out a lasting consensus among competing interests and demands. This had been the bane of populist regimes as populist coalitions either broke down amidst confrontational mobilisations or veered towards authoritarian solutions. The succeeding bureaucratic authoritarian regimes had combined coercion and exclusion to effect economic growth. But, notwithstanding the premium on growth first, even they could not abandon the redistributive goals. Using state's coercive power, military regimes had tried to re-work the existing social equilibrium by favouring the big business over the working masses. It is interesting to note that notwithstanding its politics of 'anti-politics', military regimes could not reduce the preeminence of politics, which broke out with full vigour once the process of democratic transition began.

7.4 MARKET, STATE AND SOCIETY

A noticeable change of some far-reaching importance is that both neo-liberalism and democracy are working to cause the decline of the historic preeminence of 'politics' and the 'public' in Latin America. Both for neo-liberals and the democrats, politics is proving irksome and therefore dispensable. In fact, the declining role of the state means an ever-falling premium on politics. Many of the electoral regimes of the 1980s and 1990s had come to power on a clear 'anti-politics' plank.

As politics is falling from its historic high status, a political and intellectual despair and confusion can be seen all around when it comes to challenging the social consequences of the marketisation and democratisation. The evolving patterns of electoral democratic politics and market-oriented economic policies are proving highly that they are not conducive to social cohesion and peace. Neo-liberalism is producing societal disarticulation and catastrophes. Traditional patterns of livelihood have been destroyed, communities—especially the indigenous and the rural—have been uprooted, and, more ominously, public approach to social problems has been replaced by an increasingly atomised and privatised approach. Democracies remain only procedural as lurking authoritarianism has surfaced and the combined weight of corruption, "cronyism", and coercion has greatly weakened the institutional mechanisms of representation, accountability and checks and balance.

Democracy and neo-liberalism are working in a context where the Latin American societies are faced with multiple crises. The historical patterns of deep economic inequalities and poverty are only getting further reinforced. The thrust of the economic policies is on the exclusion of the vast segments of populations from the market place. Notwithstanding some economic recovery during the 1990s, for most of the population, it has now been 'two lost decades'.

After declining during the 1970s, poverty rates had risen up during the recession of the 1980s. They rose further with the sporadic economic recovery of the 1990s. The *Social Panorama of Latin America 2000-2001*—an annual study of 17 Latin American countries by the UN Economic Commission for Latin America and the Caribbean (ECLAC)—has estimated that at the end of the 1990s, 43.8 per cent of the Latin Americans were living in poverty, with about 18.5 per cent of them being indigent. In 1999, the percentage of poor people was greater than in 1980, with more than 211 million living in this condition, and 89 million of them below the poverty line. After declining during the 1970s, levels of poverty have only increased since then, with 48 per cent of the population experiencing varied levels of poverty. In 1999, 35 per cent of the households had lacked the resources necessary to meet their basic needs and 14 per cent did not have enough income to purchase even a basic food basket. The relative incidence of rural poverty (54 per cent of households) continues to be considerably higher than urban poverty (30 per cent of households). In specific country cases, the situation is worse; for instance, nearly 60 per cent of Mexican population was said to be living in poverty in 1998. In Venezuela, the percentage of poor households rose from 22 per cent in 1981 to 34 percent in 1990, and stood at 44 per cent in 1999. Economic surveys often laud the large young population of Latin America as potential consumers in liberalised economies. However, data indicates that total number of children under 20 living in poverty has risen from 110 million in 1990 to 114 million in 1999.

ECLA reports that unequal income distribution remains the "overwhelming feature of the region's social and economic structures", and it is nearly impossible to change these structures, at least in the short and medium term. With the poorest 20 per cent of the regional population earning just

4.5 per cent of the total income, low and sporadic economic recovery of the 1990s has had no impact on those at the bottom. On the contrary, income inequalities have further intensified, with the poorest 10 per cent of the population holding on to an ever-declining share in national income. The 10 per cent of the households with the most resources captured a share of total income that, on average, was 19 times the amount received by the 40 per cent of poorest households. From two-third to three-quarters of the population, depending on the country, receives a per capita income below the general average. In countries with the worst levels of inequality such as Bolivia, Brazil and Nicaragua, the income of the wealthiest 20 per cent of the households rose over thirty times than that of the poorest during the decade of 1990s. That economic growth has not much to do with this is evident from the fact that in the period of economic recovery during 1997-99, income disparities have shown a worsening trend. In one of the worst cases, the wealthiest 10 per cent of the Brazilian households captured some 45 per cent of the national income.

The decade of the 1990s has added some 44 million more, making the workforce nearly 212 million strong. But the prospects of employment remain grim. In the three years (1997-99) of modest economic growth, regional unemployment rose considerably by 10.1 per cent annually. Urban middle and working classes have witnessed their earning plummet despite some economic recovery in the 1990s. There is an expansion of a 'spurious' tertiary sector. The informal sector, as it is also called, is becoming the refuge for a larger percentage of national population. Unemployment, precarious employment and seasonal employment are the norms for most of the population, as labour market reforms take effect. ECLAC reports that in the decade of 1990s, quality of jobs has declined, with seven of every ten new jobs in the cities being generated in the informal sector. The contagion has affected even the so-called middle income sectors, making periods of unemployment longer and reemployment at lower income ends a norm. Consequently, "whatever social homogeneity may have existed in Latin America at the time of debt crisis (1981-83), from 1985 on, social diversity (has) multiplied exponentially." In several countries, nearly half of the working population is reported to be living off the informal economy; elsewhere, particularly in the Andean countries, situation seems to be even worse.

"Most of an individual's lifetime opportunities are determined by how that life begins", asserts ECLAC. The structural inequity continues to reflect "highly segmented economic, social, gender and ethnic structures that are reproduced from one generation to the next along multiple channels." ECLAC has proposed "interruption of inter-generational channels along which poverty and inequality are transmitted, including the barriers of gender and ethnic discrimination." However, it is a task, which is not on the agenda, even in the medium run, of either the electoral democracy or economic liberalism. The change in the labour regulations is producing a workforce that is low skilled, low wage, de-unionised, and largely feminised; and this is the pattern of Latin American labour integration with globalised production structures. Admittedly, public policy in none of the liberalising economies is concerned with this. Scholarly analyses are portraying the self-help, community-based initiatives among the informal as the beginning of new grass-roots level movements and coming of age of civil society. However laudable, these are only partial, localised and often transient developments that can hardly be expected to become substitutes of long-range public policies.

The problems are not lack of economic growth or slow rates of growth; rather, they are structural in nature. And when market is reinforcing structures producing inequalities and poverty, how can electoral democracy meet the challenges? Does it have the necessary political will to take on these challenges? Elected governments as a matter of routine back-track on their electoral promises and would introduce harsh austerity measures. Not only public services and utilities have declined but also those that are available now come with a high price tag. Privatisation of services has only made essentials like education and health-care beyond the public reach, and oriented them towards the rich and the wealthy. As stated earlier, old societal patterns have disarticulated and are disappearing. The expansion of informal sector has gravely weakened the ability of labour to organise, mobilise and gain access to corridors of power. Small and subsistence-level peasantry is worst affected as state support and investments have all but disappeared. Worst, export promotion policies are leading to the re-concentration of lands, at times by uprooting the traditional communities. A major outcome of functioning of the free market is the growing gulf between the 'winners' and the 'losers' in each class, community, sector of the economy and even between different regions of the country. Societal institutions such as family are undergoing changes and face new and powerful challenges. The number of households headed by women is increasing; at the end of the 1990s, one-quarter to one-third of all households were headed by women. Besides the growing participation of women in the labour market, ECLAC has also expressed concern over the marked increase in domestic violence and disintegration of the families and the absence of any public debate on these issues.

7.5 SCOPE FOR THE STATE

In sum, unregulated markets are only leading to social chaos and catastrophes. Under neo-liberalism, state is losing its infrastructural powers and functions. There are, at the same time, successful attempts to grab and privatise important institutions of the state. Markets have neither the interest nor the ability, but with the state losing its capacity to process conflictive demands and interests. As a result, the evolving power equilibrium has little space or tolerance for opposition and political institutions are becoming unconducive to the rule of law and public accountability. The declining capacity of the state to ensure growth, meet distributive pressures, maintain law and order, accountability and transparency in governance, the representative nature of institutions, provide moral leadership and national direction has brought to the surface the lurking authoritarianism. Back-tracking on electoral promises, rule by decrees, state of siege, suspension of civil rights, decline of political parties, corporate funding of expensive electoral campaigns, and media build-up of candidates as 'saviours' are the problems faced by an electorate that is reeling under the harsh austerity measures.

The success of structural adjustment depends on how much power the state has over its civil society. In most countries, market-oriented restructuring has allowed an institutionalised interfacing between the government and the corporate sector to facilitate adjustment of the domestic economy and its integration with the global market forces. An interface between state and popular classes however is not taking place, notwithstanding the formal democratic character of regimes. This has serious repercussions for the survival of democracy and the society at large. While the state is pushing for market reforms, markets by themselves remain indifferent to social needs. The frequent eruption of economic crises has consequences that reverberate in the social and economic spheres, the very legitimacy of the state is at stake, and a hard-earned space for crucial social compromise is being jeopardised.

Economic liberalisation is not able to integrate 30 to 40 per cent of the regional workforce;

neither it is in the nature of the market ethics. At the same time, however, popular expectations cannot wait the estimated 15-20 years of adjustment for some distributive policies to take effect. This speaks of the limitations, even of the well-intentioned policies. That this does not augur well either for democracy or for economic liberalism is evident from the growing political apathy of the electorate and the predatory nature of the market operations.

As societies are getting unarticulated, integrated economies have also become more sensitive to the cycles in the industrialised countries. Not inexplicably, income disparities have only sharpened during periods of financial crises; for instance, 1994-95 in Mexico, 1997-98 in Brazil, and 2001-02 in Argentina. For the period 1945-1980, regional economic growth had averaged 5.5 percent. If this is taken as a benchmark, the 3.2 percent average annual growth during the 1990s does not speak highly of the efficacy of market economies, or justify the high cost Latin America is paying in terms of social well-being and democratic freedom. After the modest economic recovery between 1997 and 2000, regional GDP has grown only by about two percent in 2001; and with global economic recession since 2001, export volumes have fallen and terms of trade have deteriorated for all, especially the commodity-exporting countries. At the beginning of 2002, Latin America was facing its highest unemployment rates in two decades, its third recession in the past six years and a near extinction of its manufacturing sector. IMF packages are no more able to 'bail-out' the liquidity-scarce, indebted, and recession-prone economies. Financial liberalisation and capital markets have allowed the region to attract foreign investment and expand its capacity for financing investment projects but, at the same time, they have facilitated the spread of financial crises originating within or outside of Latin America. Financial crises have become more frequent, more intense and more cyclical. Liberalised investment regimes and capital markets have attracted sizeable speculative capital. Financial crises are affecting domestic interest rates, expectations for devaluation or revaluation of the exchange rate, inflationary pressures, and expenditures. The liberalised inflow and outflow of capital has encouraged only further indebtedness, more speculative and less productive economic activities, liquidation of smaller firms, superfluous consumption, unemployment and precarious employment, soaring levels of poverty, low savings, and flight of capital. The state of crisis has become permanent in the region; for, neo-liberalism has opened doors for the venality and aggrandisement. Argentina and Peru are an example of this; their former presidents are sought for corruption and embezzlement.

Two more aspects are noteworthy here: first, globalisation of economy is producing in a perverse sense globalisation of workforce too. Millions of migrants, increasingly illegal and drawn from hitherto unaffected communities such as the indigenous from as far as southern Mexico and Guatemala, are drawn towards the US. 'Maquilisation' of hundreds of thousands of workers who are deprived of standard labour rights, sucking of informal sector into a restructured globalised system of production through 'sub-contracting', feminisation of labour force, etc. are aspects of neo-liberal economies of Latin America. To this should be added the dissolution of traditional productive systems and social relations. The result is the movement of a large, floating population across national and occupational boundaries. To the 'structural marginalisation' should be added the 'coerced marginalisation' that liberalisation and democratisation together are effecting in Latin America.

Secondly, large populations have already been pushed below the threshold, which is necessary for any meaningful participation in the democratic process. Admittedly, democratisation is producing 'low intensity citizenship' where values of negotiation, consensus and pluralism, respect for the institutions of governance, and rule of law cannot be sustained given the socio-economic situation. Democratic theorists and neo-liberals do admit that people be allowed not to fall below a certain minimum level of socio-economic well-being where their participation in the democratic process becomes impossible or meaningless. But the market-based economic policies are perforce leaving 40 per cent or so, of the regional population far and behind.

Electoral democracy is not producing the kind of demands and pressures expected in a democratic polity. The successive bouts of economic failure have produced what O'Donnell has described as the 'Prisoner's Dilemma'. Every round of economic failures means further undercutting of state capacities and promotion of narrow private interests at the cost of rest of the society.

As state capacity and structures are getting unarticulated, there is a corresponding rise in the influence and power of the new class of entrepreneurs. This new upper class is increasingly autonomous of the state and its social prestige and power have also grown in the wake of domestic economic restructuring and integration with the global market. The corporate business is no longer seen only as a power figure but also as a symbol of modernity. "He/She and the profit motive, the market, competition, and possessive individualism have acquired great legitimacy in Latin American society."

7.6 SUMMARY

The reduction of the role of the state and its replacement with the self-regulating market occupies the principal position in the economic agenda of contemporary Latin American governments. Under such dispensation, private business interests are to make productive investment, while the state is to concentrate on public goods and relief for those social sectors which are most adversely affected by the transformation in the market-state relationship. The emerging neo-liberal model of development is thus based on fiscal and monetary discipline, free trade and open markets, and a minimal role for the state in the economic sphere. The limited role for the state in economic matters implies a market which is increasingly unregulated whereas the 'free' market is guiding national economic policies as well as regional economic integration. Under these circumstances, actors lack economic resources, and are quite literally at the mercy of market. Under this new dispensation euphemistically described as neo-liberalism, state is losing its infrastructural powers and functions. While the state is pushing for market reforms, markets by themselves remain indifferent to social needs. Not only has regional growth rate decreased, but also liberalised investment regimes and capital markets are already attracting sizeable speculative capital resulting in unprecedented uncertainties to the economies of Latin America.

7.7 EXERCISES

1. Critically examine the merits and demerits of the Import Substitution Industralisation (ISI) policy adopted by Latin America during the decades of 1950-1970.

2. What do you understand by the term neo-liberalism? Describe the major elements of the neo-liberal economic policy adopted by Latin America in recent decades.

3. The scope of the state as the prime engine of development has largely been circumscribed in Latin America under the influence of neo-liberalism. Do you agree?

4. The expanded role of market has impacted negatively on the Latin American society. Explain this proposition on the basis of the recent experience of any *one* Latin American country of your choice.