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The Social Impact of Economic Liberalisation: Evidence from Latin America

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This article surveys evidence on the social impact of economic liberalisation over the past decade in Latin America. The paper is timely in light of the growing debates and mushrooming literature on what constitutes pro-poor growth. It argues that the dominant development paradigm, which is promoted by the International Monetary Fund and the World Bank, is based on assumptions about the social benefits of market liberalisation which the evidence from Latin America fails to support. The article draws extensively on the research of the UN's Economic Commission for Latin America and the Caribbean (CEPAL) and provides an in-depth review of the literature on the relationship between poverty, inequality and economic liberalisation.

Kirby presents three empirical case studies, from very different sectors in Bolivia, Mexico and Uruguay, to explore one of the central questions in the paper: Are markets, if given the chance to function properly, socially beneficial or socially

destructive? One of the paper's conclusions is that if the goal of halving poverty by 2015 is to be more than a pipe-dream, then the world's international financial institutions need to show far greater willingness to examine critically the assumptions that inform their analyses of the relationship between market forces and social outcomes. And as part of this they need to engage meaningfully with Southern governments and their civil societies, not just on the content of social investment and poverty reduction programmes, but on the parameters of the Bank and Fund's own economic adjustment policies which remain centred on the social benefits of economic liberalisation.

> Most Latin American nations have gone through a true economic revolution in the past decade. Countries that only a few years ago were subject to an almost surrealistic array of controls and regulations are today boldly experimenting with creative market-oriented solutions to decades-old problems. The reforms of the past few years are creating a new economic structure that, in many countries, is beginning to bear fruit...
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> Failures to act aggressively on poverty will likely encourage distributive conflicts, prompting discontent and perhaps even a return to populism, dirigisme, and chaos... Only if the region's development becomes inclusive, allowing all segments of the population to benefit, will the new system be durable.
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> World Bank, 1993: 138, 142

Introduction

In its survey of the Latin American region in 1993 from which the above quote is taken, the World Bank ended on a hopeful note. Likening to Gabriel García Márquez's classic novel *One Hundred Years of Solitude* the "irregular and magical cycles of sorrow and frustration" which have marked the region's economic history, the Bank confidently predicted: "The recent reforms that have engulfed the region have broken this melancholic circularity. After decades of timid performance and spiralling inequalities, there are rays of hope" (World Bank, 1993: 143).

Almost another decade on, the time has come to take stock. The "economic revolution" referred to in the opening quote has now taken deep root, both in the region's economies and in its governmental institutions. This is true especially in the larger and more developed Latin American countries (for a survey of the extent of these reforms, see Thorp, 1998: 241-273). In taking stock, this article limits its focus to the issue raised in the opening quote, namely the social impact of economic liberalisation.[1] For, as the quote makes clear, the success and durability of this new economic paradigm is dependent on its ability to reduce poverty and distribute the benefits of growth more equitably. The paper seeks to address this connection both theoretically and empirically. Has the social promise predicted by the World Bank been realised? Specifically, what has been the impact of economic reforms on poverty and inequality? And, perhaps most importantly, is the World Bank's approach likely to lead to more socially beneficial outcomes?

The paper is divided into four sections. The first surveys evidence about what has been the social impact of economic liberalisation in Latin America in the 1990s, examining in particular data on poverty, income distribution and employment. This section undertakes two distinct but related tasks: firstly it documents and draws conclusions about the extent of, and trends in, poverty, inequality and unemployment in Latin America over the past decade. Secondly, it identifies causal connections between the new model of economic liberalisation and these distributional outcomes. In seeking to explain the disappointing social outcome, section two outlines the World Bank's view of the social impact which economic liberalisation can be expected to have and identifies the assumptions that inform the Bank's view; it then outlines an alternative view. Section three asks which of these views comes closest to explaining the social outcome of economic liberalisation in Latin America in the 1990s. The final section draws some conclusions.

Social impact: evidence from Latin America

This section looks firstly at the extent of, and trends in, poverty, inequality and unemployment in Latin America over the past decade. It then goes on to identify causal connections between the new model of economic liberalisation and these distributional outcomes.

Extent of, and trends in, poverty, inequality and unemployment

Poverty in Latin America is measured by establishing, at a national level, the cost of a basket of staple foods that would meet people's nutritional needs and adding to this the total sum required by households to meet their basic non-food needs. These costs are calculated on the basis of family budget surveys. The indigence line or line of extreme poverty is the amount of income a household would require simply to meet their nutritional needs based on the value of the basket of staple foods. All households whose combined income falls below this value are said to be in extreme poverty. The value of the indigence line in 1997 varied from $74 a month for Argentina to $25.8 a month for Nicaragua. Poverty lines are set at twice the indigence line in most countries; in 1997 they varied from $148 for Argentina to $51.5 for Nicaragua (CEPAL, 1999: Box 1.2, p 53).[2]

As shown in Table 1, household poverty in Latin America declined in the 1990s from 41% in 1990 to 36% in 1997, and indigence declined from 18% to 15% over the same period. However, the UN Economic Commission for Latin America and the Caribbean (CEPAL) states that an even greater reduction had been expected based on forecasts of stronger economic growth. In some countries, economic growth was less than forecast while in others growth failed to have the expected impact on poverty (CEPAL, 1999: 35). As a result, the poverty rate, in percentage terms, was restored to nearly the same level recorded at the beginning of the 1980s (it stood at 35% in 1980) though the percentage of poor households in urban areas is higher than it was in 1980 (30% as against 25%) while the figure in rural areas is similar to the 1980 figure (54%).[3] The percentage of the population in poverty was reduced from 48% in 1990 to 44% in 1997 with the urban poor population declining from 41% to 37% and the rural poor from 65% to 63%. However, the total number of those in poverty increased from 135 million in 1980 to 200

Table 1: Evolution of poverty and indigence in Latin America in the 1990s (% of households, population)

Country	Year	Honseholds in poverty	Population in poverty	Households in indigence	Population in indigence
Argentina	1990*	16	21	4	5
	1997*	13	18	3	5
Bolivia	1989*	49	53	22	23
	1997*	47	52	19	23
Brazil	1990	41	48	18	23
	1996	29	36	11	14
Chile	1990	33	39	11	13
	1998	18	22	5	6
Colombia	1991	50	56	23	26
	1997	45	51	20	24
Costa Rica	1990	24	26	10	10
	1997	20	23	7	8
Ecuador	1990*	56	62	23	26
	1997*	50	56	19	22
El Salvador	1995	40	54	18	22
	1997	48	56	19	23
Honduras	1990	75	81	54	61
	1997	74	79	48	54
Mexico	1989	39	48	14	19
	1998	38	47	13	19
Panama	1991	36	43	16	19
	1997	27	33	10	13
Paraguay	1990*	37	42	10	13
	1996*	34	46	13	16
Peru	1995	41	48	18	23
	1997	37	44	18	22
Uruguay	1990*	12	18	2	3
	1997*	6	10	1	2
Venezuela	1990	34	40	12	15
	1997	42	48	17	21
Latin	1990	**41**	48	**18**	23
America	1997	36	**44**	**15**	19

Source: CEPAL, 2000a: Cuadro 1.2 and 1.3. pp 40 and 42

* Urban areas

million in 1990, and up to 204 million in 1997. Moreover, CEPAL points out that low growth rates, particularly in South America, in 1998 and 1999 make it likely that poverty has again increased and it estimates that 220 million are likely to live in poverty in the year 2000 (CEPAL, 2000a: 1).

Yet, for CEPAL, these raw data on poverty fail to capture the changing nature of social vulnerability that affects large sectors of the population throughout Latin America. "In the 1990s, social vulnerability has, in addition to poverty, become a dominant characteristic affecting vast sectors of the population including the middle classes which were, under the previous development model, symbols of social mobility ..." (CEPAL, 2000a: 49-50). It identifies four elements that have created a greater risk of insecurity and sense of vulnerability for the majority:

- The changing nature of employment: most of the jobs being created are in low-wage, low-productivity sectors characterised by insecure conditions of employment;
- Reduced social services: many middle class and lower middle class sectors have lost social benefits as these are being targeted more on the poor;[4]
- Erosion of traditional forms of collective organisation: declining networks of social solidarity such as trade unions, political parties and community groups throw people back on their own resources to survive;
- The growth of micro-enterprises: as public employment declines, more and more people rely on small private sector enterprises for employment which are weak and vulnerable to competitive pressures (CEPAL, 2000a: 49-52).

As a result, CEPAL estimates that more households were at risk of falling into poverty in the 1990s than previously and that these risks are likely to increase further if present policies continue (CEPAL, 2000a: 44).

Turning to income inequality, the picture is more mixed. In its study on inequality in Latin America, the Inter-American Development Bank (IADB) pointed out that, "on average, the countries of the region suffer from the greatest income inequality in the world" (IADB, 1998: 1). While income inequality declined in the 1970s, the crisis of the 1980s reversed this trend as the decile with the highest incomes increased its share by over 10% at the cost of all other income deciles and the poorest 10% suffered a 15% drop in their share of income. "Thus the gaps widened again and the improvements in distribution from before the debt crisis were wiped out" (IADB, 1998: 15).

The Bank summed up changes in the first half of the 1990s as follows:

> The poorest 10% in the region saw a 15% loss of their share in income between 1990 and 1995, and the next 10% a loss of 4%. The richest 10% also suffered a relative setback, while those who gained were the remaining groups in the middle. Hence, although the indicators of average concentration for the region have changed very little during the 1990s, distribution has by no means stood still. (IADB, 1998: 15).

Breaking down this overall picture, CEPAL points out that in four countries (Bolivia, Honduras, Mexico and Uruguay) the concentration in income distribution in urban areas decreased, in Chile it remained unchanged while in seven countries (Argentina, Brazil, Costa Rica, Ecuador, Panama, Paraguay and Venezuela) it increased (CEPAL, 1999: 59). Table 2 shows the extent of changes in urban income distribution over the 1990s and the Gini co-efficient for disposable urban household income. The Gini co-efficient is a widely used international measure of inequality.[5]

The situation in two countries merits particular attention. Firstly Uruguay, which has shown the most outstanding progress over the 1990s. One factor contributing to this, says CEPAL, is the important role played by state transfers, especially the level and coverage of retirement benefits and pensions. It also points out that this feature of public expenditure has not caused per capita output to grow at a slower pace than in other countries; on the contrary its rate was almost double the regional average (CEPAL, 1999: 60). On the other hand, Chile achieved a high rate of economic growth up to 1997, which was accompanied by a significant increase in social spending. Yet, says CEPAL, "the high rates of income concentration exhibited by the country for several years now have tended to remain constant" and its Gini co-efficient for urban areas is exceeded only by Brazil and is similar to that of Colombia (CEPAL, 1999: 63).

As shown in Table 3, the 1990s drew to a close with urban unemployment at a higher level than either 1980 or 1990 despite a decline in the labour force from 58.5% of the population in 1997 to 57.9% in 1998 (CEPAL, 2000a: 96).

However, in a region like Latin America in which a large percentage of the workforce depends on the informal sector for

Table 2: Changes in urban income distribution in Latin America in the 1990s (% of income captured by different strata)

Country	Year	Poorest 40%	Richest 10%	Gini co-efficient
Argentina	1990	14.9	34.8	0.423
	1997	14.9	35.8	0.439
Bolivia	1989	12.1	38.2	0.484
	1997	13.6	37.0	0.455
Brazil	1990	10.3	41.8	0.528
	1996	10.5	44.3	0.538
Chile	1990	13.4	39.2	0.471
	1998	13.3	39.1	0.474
Colombia	1991	13.7	34.9	0.403
	1997	12.9	39.5	0.477
Costa Rica	1990	17.8	24.6	0.345
	1997	17.3	26.8	0.357
Ecuador	1990	17.1	30.5	0.381
	1997	17.0	31.9	0.388
El Salvador	1995	17.3	31.7	0.382
	1997	17.2	31.1	0.384
Honduras	1990	12.2	38.9	0.487
	1997	14.3	36.8	0.448
Mexico	1989	16.2	36.9	0.424
	1998	17.2	34.8	0.405
Panama	1991	13.3	34.2	0.448
	1997	13.3	37.3	0.462
Paraguay	1990	18.6	28.9	0.357
	1996	16.7	33.4	0.389
Uruguay	1990	20.1	31.2	0.353
	1997	22.0	25.8	0.300
Venezuela	1990	16.8	28.4	0.378
	1997	14.7	32.8	0.425

Source: CEPAL, 2000a: Cuadro 21, pp 281-282

Table 3: Urban unemployment in Latin America, 1980-1999 (% workforce)

1980a	1985a	1990a	1992	1993	1994	1995	1996	1997	1998	1999b
6.2	7.3	5.8	6.5	6.5	6.6	7.5	7.9	7.5	8.1	8.7

Source: CEPAL, 2000b: Cuador A-6, p 39

a) these years do not include the Caribbean; the other years do

b) estimate

all or part of their income and where the social benefits available for workers outside the formal sector are minimal, the rate of "open unemployment" as CEPAL calls it, underestimates the true nature of the unemployment situation faced by large sections of the workforce. This is better captured by CEPAL's study of the growth of precarious employment in the 1990s. This is detailed in Table 4 which shows the growth over the 1990s in the percentage of salaried urban workers who lack permanence in their employment, who do not have an employment contract, and who lack social security.

Table 4: Growth in insecure/flexible employment of urban workers in Latin America in the 1990s (% of salaried urban workers)

Country	Year	In non-permanent employment	Without a work contract	Without social security
Argentina	1990		21.9	29.9
	1997	17.9	33.0*	37.3
Bolivia	1989		53	57.3
	1997		52	61.8
Brazil	1990		35.1	26.9
	1996		46.3	34.9
Chile	1990	11.0	15.1	20.1
	1998	16.9	22.2	19.6*
Colombia	1989	6.6**	37.5	
	1996	20.0	31	
Costa Riea	1990	9.4		22.5
	1997	9.5		26.2
Ecuador	1997	45.1		
El Salvador	1995	26.3		
	1997			45.6
Mexico	1989		32.4	36.3
	1998		37.7	35.6*
Paraguay	1995		64.9	64.4
Peru	1989		29.9	
	1997		41.1	
Uruguay	1981			2.8
	1997			3.9
Venezuela	1997	15.4		38.8

Source: CEPAL, 2000a: Cuadros III.2, III.3 and III.5, pp 99, 100 and 102
*1996; **1980

CEPAL found that in all countries the incomes from employment of non-permanent and contract workers "are significantly lower" than those of permanent workers (CEPAL, 2000a: 100). Finally, CEPAL has studied the changing occupational stratification of the workforce and concluded that, by the end of the 1990s, the Latin American workforce can be clearly divided into three relatively homogenous groups:

- an *upper group* comprising 9.4% of the workforce, made up of employers, high-level management in the public and private sectors and high-level professionals, with incomes almost 14 times higher than the poverty line and an average of over 11 years of schooling;
- an *intermediate group*, comprising 13.9% of the workforce, made up of lower-level professionals and technical and administrative employees, with incomes five times higher than the poverty line and an average of 11 years of schooling;
- a *lower group*, comprising 73.2% of the workforce, made up of traders, manual workers, service workers and agricultural workers. Their average incomes are 2.8 times the poverty line and they have an average 5.3 years of schooling. CEPAL concludes: "The great majority of those in this group do not get incomes sufficient, on their own, to move a typically sized Latin American family out of poverty" (CEPAL, 2000a: 60-91; quote on page 66).

This stratification of the workforce reverses previous trends towards upward social mobility in many of the region's countries, a process described as the emergence of "middle class societies" (CEPAL, 2000a: 67) as manual and rural occupations gave way to non-manual and urban ones. What CEPAL now finds is that in the 1990s the non-manual and urban occupations that are expanding offer, for the most part, low-productivity, insecure and low-wage employment. As a result, it concludes, "everything indicates that the occupational structure has laid the foundations of a solid and stable polarisation of income" (CEPAL, 2000a: 68). It estimates that whereas at the beginning of the 1990s some 66% of households received incomes less than the average income, by the end of the decade some 75% of households find themselves in this situation.

Is economic liberalisation the cause of poor distributional outcomes?

Overall the evidence presented above shows that the economic and social policies implemented during the 1990s have not succeeded in reversing in any substantial or permanent way the high levels of poverty, inequality and marginalisation that characterise Latin America. This, however, is not the same as saying that economic liberalisation policies are the *cause* of the poor distributional outcomes of the past decade. Indeed, some draw the conclusion that "if the distributive situation has not progressed more rapidly, this is due in great part to the fact that structural reforms have not advanced with the rapidity nor the coherence necessary" (Londoño and Székely, 1997: 24). In this section, the principal causes of the region's poor distributional performance over the past decade as identified in the literature are examined with the purpose of drawing conclusions about whether economic liberalisation is exacerbating an already bad situation or ameliorating it.

In evaluating the impact of what he calls the new economic model (NEM), Bulmer-Thomas clarifies that reducing poverty and equalising income distribution were not objectives of economic liberalisation; rather, it evolved in response to the debt crisis and was designed to overcome the balance of payment constraint that crippled economic performance in the 1980s (Bulmer-Thomas, 1996: 310). However, the assumption was that the economic reforms would result in higher economic growth, more and better employment opportunities and increased incomes. But economic growth which averaged an annual rate of 3.2% between 1991 and 1999 (CEPAL, 2000b: 36) has not lived up to expectations; though better than the 1.9% average annual growth of the 1980s it is only about half the 6% rate of the 1960s and 1970s (Hakim, 1999: 105). However, the conclusion cannot be drawn that a higher level of growth would have resulted in more positive distributional outcomes since CEPAL found the same economic growth rate to have had a different impact on poverty in different countries of the region. The UN body concluded that "in seeking to understand poverty trends and to develop proposals for overcoming poverty, analytical approaches that focus exclusively on economic growth should be avoided" (CEPAL, 1999: 44). Instead it found that what mattered in reducing poverty were the types of jobs created by growth and the levels of state transfers to poor families (ibid: 44-50). In evaluating the impact of economic liberalisation, these then are the issues to focus on.

In examining these issues, one finds diametrically opposed conclusions being drawn in the literature. On the basis of statistical correlations, Londoño and Székely found that trade liberalisation over the period 1985-95 was associated with an increase in the incomes of the poorest 60% and a decrease in the incomes of the richest 20 % of the population. Furthermore, they found that, by affecting the dynamic of investment and productivity, economic reforms in Latin America over the same period had reduced inequality (Londoño and Székely, 1997: 20-21). However, other empirical studies draw contrary conclusions. Surveying a world-wide literature on the impact of trade liberalisation, Hersel concludes:

> [T]he empirical evidence of trade liberalisation and the need to channel future wage increases into demand for domestic products, highly challenges the orthodox assumptions that accelerated trade liberalisation is the right strategy to achieve pro-poor growth. On the contrary, the poor have proved to be the most vulnerable in the liberalisation process and are significantly worse off after the deregulation of trade across almost all developing countries.
>
> (Hersel, 2000: 31)

The Latin American literature supports these conclusions. Stewart and Berry identify three general effects of trade liberalisation which are likely to worsen income distribution in developing countries:

- an increase in wage differentials due to an increase in the salaries of high income earners as international labour markets evolve for them;
- opportunities for people to earn large incomes through the development of private enterprises; and
- the dismantling of pre-liberalisation domestic interventions such as ceilings on interest rates and minimum wages, which tended to reduce the share of profits (Stewart and Berry, 1999: 156).

They conclude that these causes explain better than factors such as inflation or economic cycle the surge in inequality associated with liberalisation (ibid: 168-169). Bulmer-Thomas also identifies factors such as the effect of trade liberalisation on promoting the adoption of high technology imports and labourshedding by firms for the lack of a more positive distributional outcome (Bulmer-Thomas, 1996: 301). CEPAL identifies in general terms what it calls "the new modality of development" (CEPAL, 2000a: 45) as being a causal factor in the increased segmentation of the labour market and the resulting polarisation of income, and the greater vulnerability of sectors of the middle classes and the poor. It also failed to find any great increase in higher productivity occupations as a result of "the macroeconomic and institutional reforms" of the past two decades (CEPAL, 2000a: 68). Altimir (1994: 26) and Ocampo (1998: 2) identify increases in the relative incomes for those with medium-to-higher skills as a cause of growing income inequality and Altimir concludes that "this unequalising trend may well be a characteristic of the new phase of growth, at least for the foreseeable future" (1996: 55). Hojman sums up the effects of the "free-market, open-economy model" by saying it "rewards the possessors of capital, both human and physical. Relative scarcities of labour, skilled and unskilled, are such that those with a higher stock of human capital, in the form of education, training, or specialised skills, command salaries many times greater than wages paid to the unskilled" (Hojman, 1996: 83).[6]

Turning to the issue of state transfers, identified as the other principal means through which poverty and inequality can be reduced, CEPAL notes that, despite a recuperation in levels of social spending throughout Latin America in the 1990s, "there exists an appreciable imbalance between the ever increasing percentage of the population that requires subsidies, especially to help satisfy their health and educational needs, and what states are able to provide within their budgetary limits" (CEPAL, 2000a: 50). CEPAL argues that there is a need to return to more universal social benefits to provide support to middle class households affected by increased social vulnerability (ibid: 56), while others have argued that there is a need to reform social spending in order to ensure that it brings about a positive change in income distribution through more efficient targeting (Ocampo, 1998; Rosenthal, 1996). Specifically, it has been found that maintaining real minimum wages may have an equalising effect on income distribution (Psacharopoulos et al., 1997: Box 2.4, p.29). Not surprisingly, investment in education is also regarded as having beneficial long-term effects through increasing the supply of skilled labour (Bulmer-Thomas, 1996: 312; Baer and Maloney, 1997: 322). Finally, Altimir identifies "deliberate and persistent concern for equity in economic policy design and implementation" to be present in the few countries which succeeded in modifying income inequality and reducing poverty in Latin America since the early 1980s. He concludes: "Moreover, the prospects for poverty alleviation through growth alone, without improvement in the relative distribution of incomes and vigorous social policies, appear so limited as to be disheartening and seem likely to be counterproductive for social integration and, ultimately, for sustained growth" (Altimir, 1994: 29).

It can be fairly concluded, therefore, that while economic liberalisation is not the cause of the high levels of poverty and iuequality that plague Latin America, it is a causal factor, particularly in the worsening wage inequality which has followed in its wake. Furthermore, it offers few prospects on its own of reversing the trend towards greater inequality and marginalisation. Finally, in closing this section, it is important to point to the fact that all analysts of Latin American poverty and inequality agree that at the heart of the problem is the fact that the region has inherited high levels of inequality from its past history. The high concentration of ownership of assets such as land and capital, and the ability to use these to access high-quality education, all tend to exacerbate inequality further (see IADB, 1998: 1-7). Any consideration of the social impact of economic liberalisation, therefore, also needs to take into account the fact that liberalisation serves to entrench this inequality of condition further rather than to reverse it.

Economic liberalisation: differing expectations

If growing poverty, inequality and marginalisation are to be tackled effectively in Latin America, a deeper understanding will be required of the reasons why economic liberalisation is resulting in such disappointing distributional outcomes. In essence, this touches on the issue of the social impact of economic liberalisation and the expectations which inform policy in regard to this impact. Usually, such expectations remain at the level of assumptions, rather than being explicitly articulated. For example, the Washington consensus, though including no instruments specifically designed to reduce poverty, unemployment or income inequality, was based on the expectation that, through raising economic growth rates, these liberalising measures would also "significantly reduce poverty and inequality [and] promote the development of labour-intensive sectors" (Burki and Perry, 1998: 1). However, growing evidence that market-oriented reform is failing to have a strong impact on reducing poverty and inequality is leading to "a broad convergence of theoretical and policy perspectives" (Korzeniewicz and Smith, 2000: 19) which aims to address the distributional issue without undermining efficient economic growth.

This convergence finds robust expression in the World Bank's *World Development Report* for 2000-01 on the theme "Attacking Poverty". The Bank acknowledges that market reforms can be a cause of dislocation as well as of help to the poor and that their effects "are deeply linked to institutions and to political and social structures" (World Bank, 2000: 32). Thus, it argues for targeting reforms towards poor people through such actions as eliminating or simplifying the regulations affecting microenterprises and small and medium-sized firms; helping the poor build their assets through health and education and through ownership of or access to land, infrastructure and financial services; and through supporting poor people in expanding their assets (ibid: 38). It proposes "a general framework" for action in three areas: expanding economic opportunity for poor people, making state institutions more accountable and responsive to poor people, and reducing poor people's vulnerability to ill health, economic shocks, policy-induced dislocations, natural disasters and violence. This approach it sums up as "promoting opportunity, facilitating empowerment and enhancing security" (ibid: 33).

However, while this new approach proposes a broader agenda than simply free market reform, it is "marked by strong neoclassical and orthodox orientations" (Korzeniewicz and Smith, 2000: 19). Thus, for example, though emphasising the importance of greater equality in the distribution of assets if the lot of the poor is to be improved, it shies away from drawing the logical conclusion from such an emphasis, namely the need for an extensive programme of redistribution. Similarly, its emphasis on the need for the state to be more responsive to the poor fails to address the evidence that market liberalisation has undermined both the extent and quality of state services provided for the poor. Finally, though recognising that the poor are vulnerable to dislocations and their security needs to be enhanced, it devotes most attention to dislocations due to natural or civil causes and pays little attention to dislocations due to market liberalisation, arguably the greatest cause of dislocation for the majority of poor people the world over. Overall, therefore, while the World Bank in its latest *World Development Report* comes far closer to acknowledging some of the dynamics that are generating growing poverty, inequality and marginalisation around the world, its response to these still rests heavily on a benign understanding of how markets are the best means to tackle poverty and inequality, if only they are made to work for the poor. While emphasising the need for state actions to do this, such state actions must never be allowed interfere with the efficiency of markets through, for example, programmes of extensive redistribution.

Though presented as being based upon incontrovertible "scientific" findings,[7] this understanding on the role of markets in social development rests on various assumptions that need to be identified. The first and most central one is the assumption of neoclassical economics that, if markets are perfectly competitive, then resources are allocated in an optimal way.[8] The assumption often influences the expectations expressed in the dominant economic literatnre of how socially beneficial economic growth is likely to be.[9] A second major assumption derives from the individualism upon which neoclassical economics is based, namely that social well-being consists of the sum of the satisfaction of the needs of individuals, rather than recognising that individual needs and their satisfaction "are defined, shaped and constrained within social structures" (Welch, 1989: 263). Derived from this individualism is a third assumption which has been identified as motivating the World Bank's interest in institutions and social transformation. This is the assumption that successful development rests upon promoting the emergence of values of self-interested individualism and "the destruction of those affective or community ties which hinder development" (Williams and Young, 1994: 97).[10] Thus, as Williams and Young put it, the Bank's "more recent analysis implies the need for a capacity to reach much deeper into Third World societies and mould them more than has ever been contemplated at least in modern times" (ibid: 99). Though its recent rhetoric is now far more friendly to the poor, the World Bank's 2000-01 report is, if anything, even more prescriptive about how governments around the world should reform their societies.

If the World Bank's view of social development emphasises the beneficial social effects of market forces, there is an alternative view that rests upon a far more critical assessment of these forces. This view identifies economic liberalisation as generating poverty and inequality. One strong expression of this view which was influential in regions like Latin America during the 1960s and 1970s is found in different varieties of dependency theory; these posit a link between the development of the core and the underdevelopment of the periphery (Martinussen, 1997: 85-100; Kirby, 1997: 53-63). O'Hearn has applied such an analysis to the Irish case, arguing that its "open, foreign-dominated, free-enterprise regime" (1989: 579) has resulted in "higher inequality of direct incomes" (ibid: 590). One does not have to accept the tenets of dependency theory, however, to posit a link between economic growth and poverty. Writing before the advent of dependency theory, Karl Polanyi identified a link between the emergence of industrial society (the British industrial revolution in the early 19th century) and "the incomprehensible fact that poverty seemed to go with plenty" (Polanyi, 1957: 85). Polanyi's view has been returned to by political economists and social theorists as a way of understanding the forces in today's more internationalised or globalised economy that are generating greater poverty and inequality, both within countries and also between the North and the South (Latham, 1997; Jordan, 1996: 222-225).[11] John Gray, formerly a champion of the New Right, has analysed today's economic liberalism from a Polanyian perspective, arguing that a "global free market is not an iron law of historical development but a political project. The deep flaws of this project have already caused much unnecessary suffering" (Gray, 1999: 210).[12]

Polanyi's classic work, *The Great Transformation* (1944)[13], deals with the stresses and strains generated by "the conflict between the market and the elementary requirements of an organised social life". It was this conflict he believed that provided the dynamic of 19th century society and produced the stresses and strains which ultimately destroyed that society (1957: 249). His research into the economic systems of earlier societies convinced him of the falsity of the belief which informed classical economics, namely that a self-regulating market economy based on self-interest was a natural institution which "would spontaneously arise if only men were let alone" (ibid: 249). He continues: "On the contrary, the market has been the outcome of a conscious and often violent intervention on the part of government which imposed the market organisation on society for non-economic ends" (ibid: 250). But the belief of classical economics led to a presumption that economic interests were the dominant motivating factors for individuals. Based on his research, however, Polanyi argued that other factors were uppermost in motivating people's behaviour: "[E]ven where money values were involved, they were secondary to other interests. Almost invariably professional status, safety and security, the form of a man's life, the breadth of his existence, the stability of his environment were in question" (ibid: 154). Too narrow a conception of human interest must lead to "a warped vision of social and political history", he wrote. Thus, for Polanyi, the most destructive impact of market forces lies not in a person's economic exploitation but in "the lethal injury to the institutions in which his social existence is embodied. The result is loss of self-respect and standards, whether the unit is a people or a class, whether the process springs from so-called 'culture conflict' or from a change in the position of a class within the confines of a society" (ibid: 157).

From his anthropological research, Polanyi found that, in all previous societies, "markets were hedged around by a number of safeguards designed to protect the prevailing organisation of society from interference on the part of market practices" (ibid: 61-62). He identified mechanisms of reciprocity or redistribution as existing in all societies previous to industrial capitalism the function of which was to ensure that the economy served social needs rather than individual gain. What was unique about 19th century society was the elevation into an organising principle of "a motive only rarely acknowledged as valid in the history of human societies, and certaiuly never before raised to the level of a justification of action and behaviour in everyday life, namely gain" (ibid: 30). This, he argued, sparked a "countermovement" (ibid: 130) or "double movement" (ibid: 150) in society which he described as "a reaction against a dislocation which attacked the fabric of society, and which would have destroyed the very organisation of production that the market had called into being" (ibid: 130). It manifested itself in an array of social legislation in regard to public health, factory conditions, social insurance, public utilities and so on. He invested great significance in this countermovement, though he recognised that it happened in a spontaneous, undirected way and was motivated by a pragmatic spirit (ibid: 141). Defending the measures of social protection against the attacks by economic liberals who saw them as thwarting the benefits of the free market, Polanyi saw them as a naturally occurring self-regulating mechanism for the protection of society. This idea of a double movement by which society seeks to defend itself against the disintegrating impact of market forces is actively invoked by today's theorists of globalisation (Inayatullah and Blaney, 1999; Birchfield, 1999).

The assumptions informing Polanyi's analysis of the social impact of economic liberalisation are, therefore, almost the direct opposite to those that inform today's dominant paradigm. Instead of a belief that a properly functioning market system allocates an economy's resources in an optimal way, Polanyi argued that a market system was socially destructive. He understood this destruction to lie primarily in the damage it did to the community bonds that sustain people's lives, thus denying the radical individualism which informs mainstream economic views of well-being. Finally, he saw social change happening through the spontaneous reaction of societies to protect themselves against the destruction of the market whereas the World Bank is seeking to mould societies so as to ensure that the principle of individual self-interest becomes a predominant principle of social action. The next section assesses which of these two views more accurately interprets the social impact of economic liberalisation in Latin America over the past decade.

Assessing theoretical assumptions

In assessing the two alternative views of the social impact of economic liberalisation outlined above, the central issue to be addressed is the role of the market in social life. As outlined there, the World Bank assumes the market to have a beneficial social impact when it is facilitated to operate in a truly competitive environment. The Polanyian view, on the other hand, assumes the market to be socially destructive and requires that society regulate the market if it is to serve social needs.[14] In the light of the evidence presented about the social impact of economic liberalisation in Latin America, which of these two views best captures what is happening in practice?[15]

To answer this question, it is best to begin with the second and third of the three assumptions about the impact of the market, namely assumptions about the nature of social well-being and the role of institutions in promoting it. As was stated above, the World Bank operates on the individualist assumptions of neoclassical economics, namely that the good of society will result from the sum of the satisfaction of the needs of individuals, and it seeks to reform institutions so that they promote the values of self-interested individualism.[16] Polanyi, on the other hand, sees the well-being of the individual as being dependent on her status, security and safety within a wider community and institutions should serve to protect society from the destructive commodification of market forces. From the evidence presented above, it is clear that, even though the World Bank is now adopting a more multidimensional understanding of what constitutes poverty, it still tends to miss some of the most significant ways in which economic liberalisation is having a social impact and the roles institutions play in mediating that impact. For example, increased levels of social vulnerability and class stratification are not only increasing the risks of falling into income poverty but are undermining the networks of social solidarity that provided informal systems of material support in difficult times and the bases for contesting power.[17] As CEPAL puts it: "Without the networks and traditional ties of socialisation, and with a state which has reduced its protector role, people find themselves isolated as they confront the market, less protected and more vulnerable" (2000a: 51). Furthermore, CEPAL recognises that the weakening of trade unions, political parties and community groups (often as a result of neoliberal legislative change and political practice[18]) has resulted in the redistribution of economic and social power away from popular sectors, weakening their capacity collectively to promote change in their favour (see CEPAL, 2000a: 77). Thus, the dramatic extension of the market principle into the labour market seems to confirm what Polanyi identified more than half a century ago: "To separate labour from other activities of life, and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organisation, an atomistic and individualist one" (1957: 163). One can conclude, therefore, that the Polanyian view more adequately captures the social impact of economic liberalisation than does the individualist World Bank view; furthermore, the role being played by institutions in mediating that impact confirms that, instead of protecting society they are opening society to market forces.

This brings us back to the first and most fundamental of the assumptions, on the role of markets. Are they, if given a chance to function properly, socially beneficial or socially destructive? An answer will be sought through examining three empirical case studies. Thus three examples are taken, from different parts of Latin America, to examine what in practice has been the effect of economic liberalisation on poverty and inequality. The first example is from rural Mexico, the second from urban Bolivia and the third from Uruguay.

Changing livelihoods in rural Mexico

To find out how rural Mexicans gain their livelihoods, and how these have been affected by economic liberalisation, Wiggins et al. (1999) studied four rural communities.[19] Since 70% of Mexico's poor are rural, this study had the objective of drawing policy lessons about poverty eradication applicable not only to Mexico but to other developing countries where the majority of the poor are rural dwellers. The study found that the poor faced increased vulnerability as the state withdrew (from providing assistance, subsidies and credit) and they were more dependent on market factors such as prices for coffee and maize, exchange rates and increased input costs. However, the private sector did not step into the areas vacated by the state (technical assistance, credit) while weak demand and greater competition on regional and national markets for their food and artisan produce squeezed their margins. The authors concluded that, since 1994, if not before, times have been particularly hard for most people in these communities and households have adapted by reducing spending (which was evidenced by poorer diets and by decreased investment in education) and by seeking additional work (much of which, such as domestic work, mending clothes and cooking for others, yielded low returns). The brunt of this hardship had been borne by women. Meanwhile, high levels of income inequality in these communities has allowed those with capital to avail of market opportunities such as coffee growing (for which the price on international markets was high) or mostly illegal migration to the United States. The report recommends: "The need for public action to support farming could scarcely be made more strongly than by these Mexican cases. In a country with a well-developed utban hierarchy, with private businesses of all scales and degree of sophistication, the withdrawal of state services has led to little or no private sector reaction, certainly not in providing credit, or technical information, or marketing services to farmers. Business, it seems, is not interested in dealing with smallholders. The search for cost-effective public support to small farmers has to be continued" (ibid: xxii).[20]

Global restructuring and urban life in Bolivia

In her ethnographic study of the city of El Alto in Bolivia, Lesley Gill offers what she calls a critique "from below" of neoliberalism, and examines how changing forms of state rule are affecting the lives of vulnerable people (Gill, 2000: 4). El Alto, formerly a poor suburb of La Paz, was constituted as a separate city in 1998; by 1995 it had a population of nearly half a million which was growing at a rate of about 9% a yeat compared to a national population growth rate of 4% (ibid: 26). Amid a process of determined neoliberal restructuring by the Bolivian state since 1985, the population of El Alto has felt severely the impact of the contraction, or in some cases virtual elimination, of sectors of the economy in which they had traditionally found jobs – particularly in protected domestic industries and the key mining sector.[21]

Meanwhile, through the privatisation of social services, particularly health and education, the state has largely withdrawn from social provision. Gill describes the situation in which the poor find themselves:

> As the state ignores the worsening plight of the urban poor, survival turns almost entirely on the social relationships that people are able to construct themselves, but in El Alto men and women – ruined peasants, ex-miners, schoolteachers, displaced urbanites from La Paz – are too poor to provide each other with all the resources they need. What has been done to them – and what they in turn are often forced to do to each other – gives rise to a complex array of tensions that people cannot resolve on their own. Unemployment and forced migration frequently disrupt the fragile social bonds that hold households together; mass landlordism divides the very poor from the slightly better-off; rampant real estate speculation and selling the same lot to more than one set of buyers at a time pits residents against each other; the saturation of the infotmal economy with desperate vendors forces people to compete for declining returns; and clientelistic relationships with more powerful groups and individuals re-produce growing social fragmentation (ibid: 182).

Central to Gill's analysis is that the state has resituated itself in response to global market forces so that, as it divests itself of its social welfare responsibilities "it is re-emerging in defence of capitalist privilege" (182). Left to their own devices, the poor find themselves "within a shifting framework of incorporation into and dislocation from national and international circuits of power", a situation in which their traditional resort to collective organising becomes much more difficult (184).

Maintaining social citizenship and challenging the role of the state in Uruguay

The case of Uruguay has already received mention as the most outstanding example of social progress over the 1990s. A study of the ways in which the imposition of neoliberalism has been successfully resisted in Uruguay therefore holds important lessons as to how market forces can be regulated through social action, thus leading to more beneficial social outcomes. As Filgueira and Papadópulos put it, even though the Uruguayan economy has opened up and financial markets have been deregulated "these transformations have not been accompanied by the erosion of social citizenship, the reduction of the role of the state in the production of goods and services, and diminished protection of the middle-class and popular sectors" (Filgueira and Papadópulos, 1997: 360-361).[22]

This more positive distributional outcome is not due to any failure on the part of the Uruguayan state to attempt a more thorough economic liberalisation. Rather, such liberalisation has been weak, uneven and tenuous due to the fact that various liberalisation proposals "have been defeated politically in critical moments and at key points in the policy-making process" (ibid: 361). Filgueira and Papadópulos identify in the Uruguayan political and state system some reasons for the success of popular opposition to liberalisation, something that has not succeeded in any other Latin American country to the same extent. At the level of the political system, they identify such mechanisms as the right of citizens to demand a referendum on key policy issues (an attempt to de-link the value of pensions from average salaries, supported overwhelmingly in Congress, was defeated by 82% of voters in a November 1989 referendum) and the "dense networks of political exchange" within parties which make it more difficult for models of exclusionary policy making to emerge. At the level of the state, they identify the universalistic welfare system as generating "strategies of aggregation rather than atomisation" in response to attempts to reduce benefit levels or coverage (ibid: 379) and the fact that state personnel are chosen on the basis of political and corporatist criteria rather than technical ones.[23]

Case study conclusions

The first two cases are illustrations of the destructive social impact of the retreat of the state and its promotion of market approaches to meeting social needs. It is clear in both cases that the plight of the poor has worsened, inequality has grown and social fragmentation has resulted. In these situations, a more competitive market for land, labour or capital does not seem to hold out a prospect of improving in any substantial and generalised way the situation of the poor. The Uruguayan example, on the other hand, shows that political organisation by social sectors threatened by reforms can result in more equitable distributive outcomes, despite the efforts of the state. These three cases, therefore, appear to confirm a Polanyian view of the destructive impact of market forces and of the spontaneous "double-movement" that emerges from society to protect itself against them.

Conclusion

What, then, are the prospects for poverty reduction as the dominant development paradigm, actively promoted by the World Bank and other multilateral agencies, promotes deeper economic liberalisation in the belief that its social effects are beneficial for the poor? A consensus seems to be emerging from recent debates that what is needed is pro-poor growth if economic liberalisation is to work for the poor. This, for example, is a key recommendation of the report *2000: A Better World for All*, issued by the International Monetary Fund (IMF), the United Nations, the World Bank, and the Organisation for Economic Co-operation and Development (OECD) which sets ambitious goals for global poverty reduction by 2015. This report recognises that economic growth is not a guarantee of poverty reduction.

Instead growth must:

- generate more income-earning opportunities for the poor;
- give poor people more access to assets; and
- create better opportunities for poor women (IMF et al., 2000: 21).

The joint report concludes: "This requires strengthening national institutions to build the capacity to implement the right economic and social policies" (ibid: 22). In the light of the evidence presented in this paper, this vague language avoids the challenges posed by poverty and inequality since it fails to state whether the purpose is to enhance or constrain markets. Hanmer, Healey and Naschold, in seeking to answer the question: "Will growth halve global poverty by 2015?" are somewhat more specific when they state: "To achieve more pro-poor outcomes requires greater state capacity to regulate market activity and privatised firms in what are often non-competitive market conditions" (Hanmer et al., 2000: 5). They add that the challenges for Latin America are greater than for other regions since high levels of income inequality limit the poverty-reducing effects of growth.

This article has attempted to show how the dominant development paradigm is based on assumptions about the social benefits of market liberalisation that the evidence from Latin America fails to bear out. Instead, this evidence tends to confirm an alternative view of the socially destructive impact of market liberalisation and the failure to realise the hopes held out by the World Bank quoted at the start of this paper. After two decades of deepening liberalisation, few rays of hope persist that this approach will succeed in reversing alarming levels of poverty, inequality and social dislocation. This conclusion focuses attention on the nature and purpose of attempts to regulate market activity; if based on World Bank assumptions these will seek to enhance the operation of market forces in the belief that they are socially beneficial. However, if a Polanyian view of the destructive nature of the market is accepted, a form of regulation is needed that would amount to nothing less than a revolution in economic governance since it would require substantially reversing the inroads of market forces into our social lives.

If the goal of halving poverty by the year 2015 is to be more than obfuscating PR for the world's leading multilateral agencies, then these agencies need to show far more willingness to examine critically the assumptions that inform their views of the relationship between market forces and social outcomes. And this will mean resisting many deeply entrenched vested interests since there is much evidence to show that economic liberalisation has amounted to pro-rich and anti-poor growth. As the dominant economic model erodes the very capacity of the poor to organise collectively in order to promote reforms that might benefit them, their ability to pressure for radical change is itself being undermined. Meanwhile, determined action by an emerging global civil society, as was seen on the streets of Seattle in December 1999 and Prague in September 2000, may be the best hope for firmly placing these issues onto the global agenda and forcing the multilateral agencies to address them. As Rupert has put it, these actions "open up new possibilities for political practice and make possible new forms of political and social organisation" (Rupert, 2000: 153). This may be the best hope for the world's poor.

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Footnotes

1 Economic liberalisation is used here to refer to the broad consensus that emerged in the early 1980s among the internarional financial and development institutions in favour of far-reaching free market reforms throughout the developing world. This consensus was formulated by John Williamson in his ten-point "Washington consensus" in 1990 which includes: fiscal discipline; public expenditure to be switched from administration, defence and indiscriminate subsidies ro primary health, education and infrastructure; tax reform; financial liberalisation; competitive exchange rates; trade liberalisation; allowing foreign and domestic firms to compete on equal terms; deregulation and secure property rights (Williamson, 1993: 1332-1333). But, as the former World Bank chief economist, Joseph E. Stiglitz, has pointed out, this emphasises means and ignores ends. Therefore, "the policies advanced by rhe Washington consensus are not complete, and rhey are sometimes misguided". Instead, he has advocated broader goals, "such as sustainable development, egalitarian development, and democratic development" and a broadening of the means to achieve them, including

"sound financial regulation, competition policy, and policies to facilitate the transfer of technology and to encourage transparency" (Stiglitz, 1998: 1).

2 In many countries, separate urban and rural lines are set. The rural line is usually between 5 and 25% lower than the urban while the rural poverty line is approximately 75% higher than the value of the basket of staple foods. Urban indigence and poverty lines are used for the examples given in the text here. Data on numbers under the poverty line include those under the indigence line.

3 One referee of this paper raised the question as to whether the national debt and fiscal positions were different between the two periods and therefore whether one can be said to be more sustainable than the other. It is true that by the early 1980s Latin American countries' indebtedness was growing due to balance of payments problems associated with the exhaustion of the import-substitution model. However, it took the policies of the Reagan administration, which resulted in high dollar interest rates, and the overvaluation of the dollar to make this burden unsustainable for most Latin American countries. Furthermore, while the fiscal position in most of these countries is now more sustainable, the evidence in this section suggests that their social position is less sustainable.

4 It is becoming increasingly recognised that attempts to target social spending on the poor are both less effective and less sustainable than was first thought. For a discussion of these issues, see Kirby (forthcoming, a).

5 The Gini co-efficient is derived from the Lorenz curve which gives a pictorial representation of inequality through plotting cumulative proportions of the population or of households, from the poorest to the richest, against the proportions of total income or wealth they hold. If the distribution were perfectly equal, the Lorenz curve would be a straight 45° line; in all cases it is a bowed line below this diagonal with situations of greater inequality showing a deeper curve in the bow. The greater the Gini co-efficient, the greater the degree of inequality. A Gini co-efficient of zero represents perfect equality and at the other extreme a co-efficient of one represents maximum inequality. "Gini co-efficients for household wealth are typically of the order of 0.7 to 0.8. In comparison, those for income are typically in the neighbourhood of 0.4" (Wolff and Marley, 1987: 8). The Gini co-efficient for disposable household income in Ireland in 1997 was 0.393.

6 While this paragraph surveys some of the reasons for growing inequality in income distribution as identified in the literature on Latin America, it needs to be set against the major international debate, particularly among economists, about whether trade liberalisation or technology is the cause of growing wage inequality in the North. For a summary of the standard neoclassical arguments, see Williamson (1996: 2-8). However, Rodrik (himself a neoclassical economist) argues that this literature overlooks what may be "the main impact of globalisation on labour markets", namely "the increase in the (actual or perceived) elasticity of demand for unskilled workers" (Rodrik, 1997: 26). He believes that globalisation has had a significant effect on labour markets in three ways: i) workers have to bear more of the costs of improvements in work conditions and benefits; ii) increases in job instability and insecurity increase wage dispersion, hitting the least skilled workers the most; and iii) the nature of employer-employee bargaining is altered and the power of unions weakened (ibid: 16-27). Rodrik is critical of the literature's emphasis on technology as an alternative explanation for rising wage inequality, saying that the empirical evidence for this is far from overwhelming and that technology cannot be treated as an element entirely independent of trade. This view is consistent with the points made in the survey of the Latin American literature.

7 In surveying the fate of the Washington Consensus, Moises Naim writes: "[A]n objective assessment of the situation shows that, while some convergence did emerge, confusion rather than consensus characterised then and now the intellectual climate among experts in the field of economic development and market reforms" (2000: 506). He documents the profound disagreement among the most respected and influential economists in the field, all of whom as he poinrs our share favourable ideological predispositions towards markets, private capital and free trade and investment, while harbouring a deep distrust of socialist ideas, central planning and government intervention.

8 As O'Shea writes: "Most economists accept the basic insight of Adam Smith that, under certain conditions, an economic system based on free or competitive markets will ensure that questions of allocation are answered in an optimal way. The same economisrs are likely to concede a role for government when market failnre occurs or gross inequality exists, but would continue to argue for the primacy of efficiency in all areas of resource allocation" (1996: 212).

9 A review article of 12 works on Mexico's accession to the North American Free Trade Agreement (NAFTA) illustrates this. The authors of the review make the following point about much of the eeonomic analysis of this event: "This conventional wisdom, widely supporred by mainstream scholarship, predicred stable growth of the Mexican economy and sustained capital inflows to fund rhat growrh; slow but sure improvement in the standard of living of poor Mexicans as wages and working conditions improved; more encouraging social indicators as the benefits of growrh trickled down; and lagged bnt sready liberalisation of the political system. Academic analysts working within neoclassical and modernisation traditions failed ro comprehend the complexity of the economic and social transformations broughr on Mexican society by neo-liberal policies. The same analysts who failed to predicr ex anre outcomes have been very reluctant to recognise the ex posr, deeply disturbing nature of cnrrenr social, political, and economic conditions in Mexico" (Grinspun and Cameron, 1996: 163). Grinspun and Cameron analyse Mexico's problems from "a political-economy perspective that focuses on the interaction between political and economic factors (domestic and international). This perspective differs from mainsrream approaches in srressing issues of power, equity, and sustainability" (ibid: 163).

10 Williams and Young wrire that for the Bank, civil society "is not to consist of ethnic or other affective or community groups, bur contractual, non-community, non-affective groups, such as professional associations, chambers of commerce and iudustry, trade uuions and NGOs. It is a society made up of snch groupings which will support the 'technical' reforms; indeed it is this type of society which will *demand* these technical reforms (1994: 96; emphasis in original). It is to be ackuowledged that the World Bank has made greater efforts since rhis was wrirten to work with NGOs and it may be that this is helping to change the Bank's view as analysed by Williams and Young. However, the emphasis in the 2000-01 *World Development Report* on the role of markets in helping rhe poor expand their opportunities implies a continuing commitment on the part of the Bank ro promoting the emergenee of values of self-iuterested individualism.

11 Polanyi's work is used here as a way of identifying clearly some of rhe theoretical assumptions that inform proponents of au approach to poverty reduction and equality which is an alternative to that of the World Bank and other mainsrream agencies.

12 Gray writes: "Global markets are engines of creative destruction. ... Like capitalism in the past, global capitalism achieves its prodigious productivity

today by destroying old industries, occupations and ways of life – but on a scale that is world-wide" (1999: 210).

13 The 1957 edition of this work is used here.

14 What Polanyi finds most pernicious about the elevation of the market principle at rhe time of the Industrial Revolution to the status of the prineiple guiding the economic organisation of society is its commodification of land, labour and capiral. "To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, eveu of the amount and use of purchasing power, would result in the demolition of society", he writes (1957: 73). Thus, the "double-movement" to regulate rhe market, which he idenrifies as the natural self-protective reaction of society, is designed to restrict rhe extension of market principles into these areas (ibid: 76).

15 This question is, of course, posed in a particularly srark way as it asks which of the two views may be more accurate. It can legitimately be asserred rhat a view combining elements of both extremes mighr more accurately capture what has been happening in Latin America. However, the purpose of this exercise is to draw attention to some core assumptions about the role of markets in social well-being in order to highlight central issues that need to be examined. To do this, it is necessary to counter-pose these two positions.

16 This may seem an extreme statement of the Bank's position and one that fails to acknowledge the ways in which it has changed in the second half of the 1990s. However, as argued in the previous secrion, the Bank's more nuanced view of the nature and causes of poverty aud inequality leads it ro promore a broader agenda but not necessarily one that departs in any significant way from the core assumptions outliued here.

17 Despite its promotion of a fuller view of what constitutes poverty, the World Bank srill bases its key assertion that economic growth helps the poor on a very restrictive definition of income poverty (see Chen and Ravallion, 2000) and its view of the nature and causes of social vulnerability (as outlined in the previous section) is quite different to rhat of CEPAL.

18 I refer here, for example, to the deregnlation of labour markers and the restrictions on trade nuion power which has resulted, to the weakening of political parties due to the practice of technocratic decision-making among restricted elites, and to the restructuring of the NGO/community sector to become implementers and evaluators of government social policies rather than promoters of popular development alternarives (for an outline of these rhemes in the case of Chile, see Kirby, 1996).

19 Two of these were in the highland Toluca-Atlacumulco valley in the state of Mexico, thus within easy reach of large urban centres including the capital city, and two other communities in Misantla valley in the coastal lowlands in north-central Veracruz state, more remote from large urban centres.

20 A referee has drawn to my attention that liberalisation does not necessarily entail the withdrawal of state services. This may, in rheory, be correct; for example, it is not mentioued in the 10-poiut Washingtou consensus (see footnote 1). However, the practice of liberalisation throughout Latin America in the context of a severe fiscal crisis in the early 1980s led ro the state withdrawing from the provision of many services, the elimination of subsidies ou basic foodstuffs and inputs such as ferrilisers, and the charging of fees for social services. This was clearly the case iu Mexico as referred to in the text.

21 Ou rhe basis of this reference to protected industries, a referee srates that "rhe thrust of this raises the question would you [sic] defend the kind of Irish economy we had in rhe 1950s?". This questiou brings up issues that go far beyond the subject of this artiele. In essenee, the issue relates ro the distributioual impact of different models of industrialisation – the protected,

stace-led model versus the liberalised, free-market model. Suffice it to say that the evidence from Latin America points to the protected, srate-led model as having resulted in greater poverty reduction and in greater income equality than does the liberalised, frec-market model. Indeed, extensive rrade liberalisation in the 1980s and 1990s coupled with the lack of a coherent state industrial policy in most countries, has resnlted in a process of deindustrialisarion and a return to something akin to 19th century primary commodity exporting. This contrasrs with the ability of the East Asian countries to develop a strong industrial base and more equitable income distribution through rhe use of selective protectionism as part of a determined stare-led industrial policy. As for the Irish case, rhe distribntional impact of the different phases of industrialisation is extensively discussed in my forrhcoming study on growth with inequality in Ireland (Kirby, forthcoming, b).

22 "Popular" here refers to rhe working class and the poor.

23 This refers to the fact that, in Uruguay, state personnel are chosen according to membership of political parties or other organised social groups rather than for their technical expertise. For an historical view of the dilemmas and difficulties which this nnnsual political system poses for economic and political reform in Uruguay, see Caetauo and Rilla, 1997: 307-311.