Neoliberalism in Latin America:
Ten Years after the Jesuit Provincials Sounded the Alarm

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A decade has passed since the superiors of all 18 Latin American provinces of the Society of Jesus issued an urgent letter on neoliberalism. The letter was addressed to all those in the Americas participating in the Jesuit enterprise.[1]

The letter contained biting criticisms of the neoliberal model of economic globalization and the model's application in Latin America. While admitting that economic liberalization seemed to be having some salutary effects at the macro level, their aim was to highlight the harm being done to the people in the region, especially the poor. In a *Reflection* that accompanied the letter, the Jesuit leaders expressly condemned aspects of the ideology underlying neoliberalism which are "incompatible with the Christian ideal":

> Neo-liberalism, as it is understood in Latin America, is a radical conception of capitalism that tends to absolutize the market and transform it into the means, the method, and the end of all intelligent and rational human behaviour. According to this conception, people's lives, the functioning of societies, and the policy of governments are subordinated to the market. This absolute market disallows regulation in any area. It is unfettered . . .. This current of thought and action tends to turn the economic theory . . . into a total ideology (p. 48).

The Latin American Jesuits call to the Americas was a call to action as well as a critique. They laid out the parameters of a project to right the situation from an ethical and religious perspective.

My intention in this paper is to determine what relevance the Jesuits' letter has today, 11 years after it was first delivered. I will review the application and effects of the neoliberal model in Latin America during the last decade. And I will indicate places where resistance is beginning to erode some of its force in the region.

Neoliberalism became a movement in economics in 1947. That year Friedrich Hayek convened a meeting in Switzerland of like-minded thinkers, including the American, Milton Friedman. "The common denominator which united the participants to this meeting was their opposition to state intervention in the economy, particularly the free market."[2] Their ideas caught fire in the late 1970s when market devotees swept to power in the U.S., Europe, and Asia (e.g., Reagan, Thatcher, and Deng Xaioping). Over the next two decades neoliberal practices would be extended forcefully to former Communist countries and to Latin America.[3]

The overarching concern of the provincials, in their letter of November 1996, was neoliberalism's utter failure to bring relief to Latin America's masses mired in poverty. They noted that, at the time, 180 million people (43.5%) in Latin America (and the Caribbean) lived in poverty, and 80 million (19%) lived in extreme poverty. They suggested that the neoliberal regime had led to "immense majorities . . . excluded from a worthy human life" (p. 48).

Poverty is still staggering in Latin America. The latest U.N. figures indicate 209 million living in poverty, and 81 million living in extreme poverty. The percentages have moderated somewhat (39.8% and 15.4% respectively in 2006).[4] I will discuss this phenomenon later, along with other consequences of neoliberal policies and practices.

In their letter and *Reflection*, the provincial superiors described and critiqued a menu of "neoliberal measures" that had been imposed on their countries. The neoliberal regime stemmed from the third-world debt crisis in the early 1980s. At that time developed countries raised interest rates and increased subsidies to their domestic agricultural and industrial producers. Developing countries were forced to drop prices on exports at the same time the cost of servicing their debt skyrocketed. The crisis exposed Latin American governments to a wave of neoliberal discipline at the hands of international financial institutions (e.g., IMF, World Bank, Inter-American Development Bank). The discipline came in the form of "structural adjustment," a term used first by Robert McNamara, World Bank president in the late 1970s. It refers to "a set of lending practices whereby governments would receive loans if they agreed to implement specific economic reforms."

Structural adjustment

In no particular order, the Jesuit provincial superiors listed seven structural adjustment measures they believed had caused adverse consequences for the populations of their countries. The discussion of these measures focuses on how they have played out during the decade since the Jesuits wrote.

State intervention in the economy restricted. The provincials reported that comprehensive programs for all citizens were being replaced by incidental assistance to a few. In some cases the state was being stripped of responsibility to provide basic goods. This phenomenon has proceeded unremittingly into the current century. One manifestation is the movement by national governments to decentralize. Two waves of decentralization have occurred under neoliberalism. The first concentrated on basic services and infrastructure (waste management, urban roadways and transportation). The second wave, from 1996-2004, concentrated on urban and regional transit, water, health-related services, and education. Neoliberal thinking encourages the delegation of more responsibility to local government. The catch is that, rather than the federal government providing funding, local authorities are "encouraged to generate more of their own resources." This burden on local governments has led to increased privatization and public/private partnerships. In Chile, for example, the Pinochet government decentralized with idea that Chileans would 'voluntarily' shift from public to private institutions to provide services. In education and health care the effect was starved public resources and haphazard privatization. In many cases what services continue to be provided at the national level are narrowly targeted toward the very poor. In health care there has been an impulse to replace public with private, for-profit insurance plans, and to impose user fees. In many instances the loss of universal health care has left marginal, working poor unable to afford adequate care, and in jeopardy of falling into penury should they be faced with a medical emergency.

Privatization of State enterprises. As the Jesuits bemoaned, the clichéd rationale for privatization is that private administration is better for everyone. Latin America has been the world leader in this linchpin neoliberal practice. In the 1990s economic activity in state-owned companies in Latin America dropped by half, while the region accounted for over half of the total privatization revenues in the world. Countries sold out holdings both in the competitive sector (e.g., manufacturing and finance) and in the monopoly and utilities sector. In some cases, enterprises that could have been opened to competition (e.g., telecommunications) were allowed to retain their monopolistic status after privatization. In addition publicly-held enterprises were valued in ways to provide incentives to private capital, and in many cases they were sold to "pre-selected buyers."[5]

In Chile, an early adopter of neoliberal doctrine during the Pinochet era, social security was privatized, requiring wage earners and their families to tie their future economic security to the vagaries of the stock market. During the neoliberal regime in Latin America there has occurred a perversion of intent regarding privatization: the process often involves collusion between the government and local businesses, so that the end result is a non-competitive concentration of ownership. In addition, the privatization of state-owned firms often leads to downsizing and worker layoffs. Privatized firms have tended to be extremely profitable, partly due to efficiencies gained from shedding employees. Babb suggests that displaced workers do not find jobs in the private sector, but rather in the informal sector, "replacing stable, state-regulated jobs with a form of employment that tends to be precarious, poorly paid, and less productive."[6] In a recent poll of Latin Americans conducted for *The Economist* magazine by the Chilean non-profit pollster Latinobarómetro, only 30% of respondents were at all satisfied with the price and quality of privatized utilities; and large majorities remain opposed to the privatization of extraction industries (oil & gas, mining).[7]

Removal of restrictions across national borders on merchandise, capital and financial flows. A primary example of this tendency pertains to tariffs on imports. Tariff rates in Latin America fell from an average of roughly 50% before neoliberal reforms to barely 10% by the 2000s. Restrictions on foreign investment, direct and portfolio, were abolished, and taxes on foreign earnings from dividends, interest, and royalties were reduced or eliminated in the 1990s. It should be noted that since 2002 there has been a four-year period of "reasonable growth" in Latin America's economy, accompanied by current-account surpluses and relatively low inflation. According to *The Economist* magazine, these conditions, attributed to neoliberal structural adjustment, could make the region "less exposed to sudden squalls" from capital flight than it has been in the recent past. The accuracy of this prediction is called into question by data from ECLAC showing that foreign investment in Latin America and the Caribbean dropped by 26% in 2006!

Market liberalization gained traction at a time when communications and transportation technology was making the network form of transnational firm a reality. Networked, as opposed to hierarchically, structured enterprises contract out production globally, usually to whichever production facilities are the low-cost bidders—frequently found in exportprocessing zones (EPZs) (also referred to as free-trade zones [FTZs], maquiladoras or maquilas). As Babb points out, liberalizing reforms "facilitate global production networks by eliminating the friction of tariffs, taxes, complicated labor laws, and red tape."[8]

Neoliberal agenda silent on problems of foreign debt. In 2005, Latin American foreign debt amounted to $720 billion, roughly equivalent to 38 per cent of the region's GDP. Between 1982 and 1996, Latin America paid creditors $730-billion dollars, mainly in interest. The Jesuit provincials pointed out that servicing foreign debt requires cutbacks in social spending. Especially when the debt is in foreign currencies, countries are forced to emphasize spending on export activities and not on social institutions.

Latin America has not been left out of the international debt relief movement. Four countries (Bolivia, Guyana, Honduras, Nicaragua) are currently recipients of debt cancellations from the World Bank and the Inter-American Development Bank (IDB). They are among those countries designated as "heavily indebted poor countries" (HIPCs), eligible under the Multilateral Debt Relief Initiative (MDRI)committed to by the G-8 participants in 2005. Two caveats, however. One, the amount of debt relief is far from 100 per cent. The European Network on Debt and Development indicates that overall MDRI will reduce the debt of HIPCs by an average of 40%, whereas for HIPCs in Latin America, the figure drops to 20-30%. Two, to qualify for debt reduction, HIPCs have to agree to, and demonstrate performance on, strict structural adjustment programs determined by the IMF, including more privatization and increased trade liberalization As Harvey points out, the negotiation of debt relief by the World Bank and the IMF has gained traction in part because it protects large international financial institutions from default. The structural adjustments prioritize the needs of the banks while further squeezing the standard of living of debtor nations. Harvey quotes the economist Joseph Stiglitz as remarking, "What a peculiar world in which the poor countries are in effect subsidizing the richest."[9]

State fiscal, economic activities subordinated to macroeconomic concerns. Strict neoliberal orthodoxy requires national governments to balance fiscal budgets, reduce inflation, and maintain a stable balance of payments. Along with privatization and deregulation, these measures comprise the essential features of neoliberal structural adjustment. There seems to be no backing off by IFIs regarding the necessity for third world borrowers to adopt a macroeconomic focus. And speculative investors, especially "portfolio" investors, continue to require Latin American governments to provide a climate of "extreme market friendliness" or face the prospect of capital flight. Babb suggests that developing countries, "to make themselves look more competitive to investors shopping around for the best deal, . . . may offer lower levels of taxation, regulation, etc. If true, this pattern should lead to a polarization between developed and developing countries, with the latter converging among themselves on uniformly low regulatory standards and levels of social protection."[10]

One study has sought to evaluate the impact of structural adjustment programs (SAPs) in 112 developing countries, including a dozen in Latin America. The investigators found that in countries that undertook "belt-tightening" without IMF-imposed SAPs, government expenditures declined and revenues increased modestly. But, interestingly, in IMF program countries with imposed SAPs, revenues declined, and very sharp expenditure compression was used to partially offset the revenue declines! The researchers comment that IMF-imposed SAPs, even accompanied by technical fiscal assistance, may fail "to bring about sustained fiscal improvements, especially if the reforms were not supported by the public."[11]

Elimination of legislative barriers designed to protect workers. This is another structural adjustment designed to incentivize private investment. Latin American countries generally have boiler plate ILO-inspired labor legislation on the books; but the perception is that enforcement is practically non-existent. The Latinobarómetro poll for 2005 shows that only 18% of Latin Americans believe that workers are adequately protected by labor laws in their countries. Only in Uruguay and Venezuela, with populist governments, do the figures exceed 33%! Perceptions of worker protection are directly associated with respondents' satisfaction with how the market economy is working.

Related to worker protection is the specter of unemployment in Latin America. In most countries, unemployment is rated as the "most important problem." The Latinobarómetro poll results show 59% of households reported that at least one adult person was unemployed during the year before. Furthermore, 75% of survey respondents expressed concern about being unemployed during the following 12 months. (El Salvador was highest with 86%!) These figures have remained relatively constant, even though economies have been growing since 2002, indicating that neoliberal reforms have failed to ameliorate unemployment.

Another way to gauge the impact on individuals of neoliberal economic globalization is through regional literature. In her article, "Neoliberal Noir," Misha Kokotovic comments:

> Although the individual's expression of his or her desires through the free market is the very basis of neoliberalism, postwar Central American narrative fiction represents the individual under conditions of actually existing neoliberalism as anything but sovereign. Rather, in these works the freedom of the individual is severely constrained by the violence and decay of nations still ruled by corrupt elites, in which it is virtually impossible even to know what is going on . . ..[12]

Reduction of taxes for powerful groups. Intended to stimulate the economy, this measure, according to the Jesuit provincials, leads to greater concentration of wealth and power. Cutting taxes on the powerful has not led developing countries to eschew taxation, however. An IDB working paper reports that "to offset the revenues lost through removing tariffs, they have reformed their taxation systems to more effectively extract resources, commonly replacing taxes on income and wealth with more easily administered (but more regressive) value-added taxes."[13] Not only are the rich paying relatively less, but the poor are paying relatively more! The manipulation of taxes under neoliberalism is discussed further in a later section.

Consequences of neoliberal structural adjustment

We have reviewed seven structural adjustment measures the Jesuit provincials were alarmed about; and the evidence indicates that the neoliberal regime is still strong in Latin America. The reason for the provincials' indicting neoliberal measures is outlined in the *Reflection* accompanying their letter. They claimed structural adjustment led to unacceptable consequences for a majority of Latin Americans. The following section provides documentation of how those consequences, mostly unintended, have manifested themselves over the last 10 years.

Poverty. Earlier in this paper poverty figures for 2006 were presented, showing a diminution of the percentages of Latin Americans living in poverty and of those living in extreme poverty. These data represented the first time that rates of poverty in Latin America have dropped below 1980 levels (pre-neoliberal era). This finding can surely be seen as a positive development. There are, however, reasons why caution is called for in interpreting the data. An obvious one is the sheer numbers of people still facing desperately marginal living conditions (209 million people). Another is definitional. The data reflects absolute poverty, and the improvement in percentages is due to economic growth and *not to wealth distribution*. An analysis of relational poverty tells another story. Relational poverty is defined as being below some percentage of a country's median or average income. A common cutoff is 60% of median income. Using this yardstick, poverty in Latin America has remained virtually unchanged since 1990. ECLAC indicates that relative poverty comes closer to operationalizing "the notion of poverty as the inability to develop the capacities needed to relate properly to society."

The experience of poverty is ubiquitous in Latin America. The average Latin American places himself/herself at between 3 and 4 on a ten-point income scale, where 1 equals most poor and 10 equals most wealthy. In the Latinobarómetro poll, 56 per cent indicate that their family income has been insufficient to cover necessities each month, and that they are having difficulty making ends meet. A majority of the current generation believe that their children will be better off than they are. A majority also believes their parents were better off than they are!

Unemployment/underemployment among urban masses. This was discussed earlier. The unemployment rate in Latin America as a whole did decline between 2002 and 2005 by one percentage point, from 12.7% to 11.8%. This was after sustained increases in unemployment the decade before. The economic growth attributed to neoliberal reforms buys reductions in unemployment at a high cost. ECLAC estimates that an increase in GDP of at least 4% is necessary to reduce unemployment by one per cent. Behind the improving overall employment picture, there were still 17.5 million urban Latin Americans out of work in 2006. And in urban areas the unemployment rate for poor workers is three times that of the non-poor. Furthermore, raw unemployment figures do not reveal the nature of Latin America's employment structure. Almost half the employed persons work in the unregulated and unprotected informal sector where jobs typically provide low wages and no benefits.

Displacement of indigenous and rural populations. A number of factors, including poverty, the interests of international and domestic corporations, and a lack of basic services have been driving indigenous populations off ancestral lands and into urban slums. In Brazil, for example, indigenous peoples are being displaced from rain forests, allowing the clean-cutting of trees for massive soy bean farms and other corporate enterprises.

Under multilateral and bilateral North-South trade agreements (e.g., NAFTA) small-scale, mostly subsistence agriculture becomes non-competitive, forcing farmers off their land and into the cities (or into emigration). In 1999-2001, under NAFTA, subsidized U.S. corn imported into Mexico was priced at 30% below the local cost of production! In 2005, members of agricultural cooperatives in El Salvador told the author that if CAFTA was approved and implemented, many would be coming to the U.S., since their livelihoods would be similarly threatened by U.S. agricultural imports. CAFTA was approved (the U.S. House of Representatives passed it in July 2005 by only two votes), and has since been implemented in El Salvador, Honduras, Guatemala, and Nicaragua. In 2006 subsidized U.S. agricultural imports into El Salvador increased dramatically: meat up 378%, dairy products 37%, grains 28%, and rice 18%. In the past, all these products have been produced by literally hundreds of thousands of small to medium-sized Salvadoran farm operators. As imports flow into the country their very livelihoods are jeopardized.

Increase in criminality and the spread of narco-trafficking.. The Latinobarómetro poll found that crime was the number two cause of concern in Latin America. Closely linked to narco-trafficking, criminal activity casts its shadow over substantial parts of the region, and its effects “ripple throughout society connecting top to bottom, eventually to the unemployed, disaffected youth who hustle, scrap, scuffle, retail, and kill each other”. Drug trafficking and drug money not only lead to violent crime, but also to corruption at all levels in business and government institutions.[14]

Indebtedness and structural adjustments in Latin America, especially in Central America and the Caribbean, have generally led to depressed social expenditures during the last two decades. With large segments of the population in poverty, a frayed safety net and increased economic vulnerability have led “more individuals to succumb to the temptation of involvement in drug activities.”[15] In addition, as local farmers find their products uncompetitive as a result of the dismantling of protective mechanisms and the opening of markets to foreign producers, they “find it increasingly acceptable to engage in narcotics cultivation.”[16]

The relationship between narco-trafficking and neoliberal reform activity in Latin America is complex. In the Clinton Administration’s drug-enforcement budget proposal for 1997, there appears the following goal: “building institutional capacity of host nations to . . . withstand the threat narcotics trafficking poses to sovereignty, democracies, and free-market economies.” Ironically, the U.S. has pressed countries involved in the drug trade, especially those in the Caribbean, to give up sovereignty “in return for U.S. security assistance and economic aid.” An example of this actually occurring is the “shiprider agreements” from the 1990s that allow American navy vessels to operate freely in the territorial waters of a number of Caribbean nations.[17]

Narco-trafficking is one market that the neoliberal regime does not want deregulated. Drug-related activity can impede access to legitimate consumer markets and to advantageous production arrangements. As Bernal et al. point out, a country that is seen as infected by drug-trafficking and money laundering “can find a chilling effect on efforts to attract new investment and promote tourism.”[18] Similarly, trans-national corporations may choose not to operate there because of increased security costs, and potential embarrassment. As a result many countries in Latin America are investing heavily in combating the drug trade. The costs are enormous. First, there are the direct costs involved in enlarging and upgrading police forces, accommodating burgeoning prison populations, supporting the demands made on the court systems.[19] In addition, as an unacknowledged sort of structural adjustment, Latin American countries are having to create a "new security complex" with close ties to U.S. drug-fighting forces. The U.S. DEA is active throughout the region, and U.S. military has reestablished its presence as part of "Plan Columbia."

The new security state. Legitimized by an anti-drug/anti-crime agenda, many countries are re-developing some of the apparatus of a security state. Puerto Rico is an example, where there has been "a growing fusion between federal and local agencies, and between military and civil security structures."[20] Beruff suggests that "neoliberalism . . .has been accompanied by a building up of the security agencies of the state to ensure social control. The need to enhance the repressive power of the state is structurally conditioned by its diminished capacity of incorporating the population through 'populist' measures and the social polarization that results from the thrust of its economic policies."[21] Recently in El Salvador, a special anti-terrorist police unit backed by the military arrested 14 citizen members of NGOS protesting decentralization and privatization of water service. Those arrested were charged under the country's new anti-terrorist laws, and had they been found guilty would have faced harsh prison sentences. Street vendors protesting efforts to evict them from downtown areas and nurses protesting the privatization of health services have also been arrested and charged under El Salvador's anti-terrorist laws. Harvey comments that "faced with social movements that seek collective interventions, . . . the neoliberal state is itself forced to intervene, sometimes repressively, thus denying the very freedoms it is supposed to uphold." Faced with opposition to its policies "the state must resort to persuasion, propaganda or, when necessary, raw force and police power."[22]

Participation in crime, for so many in Latin America, is linked to poverty and lack of economic opportunity. It has been suggested that unless social and political structures are transformed, along with redistribution of income, "organized violence remains a real threat."

Destabilization of national economies by free-flow of international speculative capital. The Jesuit superiors had witnessed the 1994 Mexican peso crisis; but they could never have imagined the total collapse of the Argentinean economy. Argentina had fully bought into neoliberal adjustment reforms; and in an extreme action to stem inflation, it pegged its currency to the U.S. dollar. Transactions were dollarized, the economy stabilized, and foreign investment grew. Argentina borrowed heavily and confidently. Then in the late 1990s Russia and Brazil suffered economic "crises." When they responded by devaluing their currencies, Argentina's exchange rate remained coupled to the strong U.S. dollar, hobbling its ability to compete with these two countries in common export markets, as well as its ability to capture foreign exchange. It's capacity to service its debt wobbled. As the IMF, somewhat cynically, continued to inject Argentina with bailout loans, the investor community expected that the country would be forced to devalue. Since under the neoliberal regime capital transactions had been deregulated, dollars flooded out of the country. Locals whose deposits were 'dollarized' made a run on the banks. The banks essentially shut down, thousands of businesses disappeared overnight, the country devalued its peso, and nearly six of ten Argentineans slipped below the poverty line. It should be noted that Argentina has somewhat miraculously bounced back due, in part, to its government negotiating a reduction in external debt while spending copiously on social capital.

The neoliberal mantra asserts that economic growth is the magic ring that will bring about all good things, and that the strict discipline of structural adjustment is the necessary and arduous journey leading to economic growth. Not only arduous but long. During the 1980s and 1990s rates of growth in Latin America stagnated. ECLAC data show that in the pre-neoliberal period 1962-1980, 15 out of 19 years the rate of GDP growth exceeded 4%; in no year was it below 2%. During the 25-year neoliberal regime, 1981-2006, only nine years did the rate exceed 4%; and it fell below 2% 10 of those years. In three of them the growth rate went negative, the last time in 2002. Only in the last three years has GDP in Latin America shown sustained growth: In 2004 - 6.2%, 2005 - 4.6%, and 2006 - 5.6%. Accompanying this recent growth are several other positive macroeconomic trends. A number of countries in the region are showing a current account surplus. This is unusual for Latin America, and part of the reason is that public expenditure has remained depressed while revenues have risen substantially. This is to be expected where structural adjustments have reduced the opportunities for governments to apply increased revenues to public purposes (e.g., social programs). Unemployment is edging down (9.1% in 2005, 8.6% in 2006). Inflation is low and falling (6.1% in 2005, 5% in 2006). And the external debt burden is shrinking (26% of GDP in 2005, 22% in 2006).

Cautions are in order. ECLAC reports that the region's economic well-being is to a large extent an off-shoot of a highly favorable external environment, including a world-wide economic boom, increased demand (and rising prices) for regional commodities (especially oil, coffee and copper—export volumes up 7.4% in last two years), and a high level of liquidity in international capital markets. Obviously, not all Latin American countries have benefited. Much of the good news stems from mega growth in Venezuela, Argentina, and the Dominican Republic—all rebounding from earlier economic collapses. Central America and the Caribbean, for the most part, have not seen the positive export results, their current balances are less positive, and income and foreign investment have been sluggish. Finally, even though international investors' perceptions of risk associated with the region have become much more sanguine, portfolio investment capital flowing into Latin America is still below capital outflows. Ironically, public sector austerity hasn't induced the private sector to follow suite. Rather it has responded by reducing direct investment and cutting savings. What is propping up many national economies in Latin America is not regular foreign investment, either direct or portfolio, but rather "hefty inflows of remittances from emigrant workers."

Remittances. In 2005, remittances to approximately 18 million households in Latin America totaled almost $54 billion, an increase of 17% over 2004.[23] The region has the dubious distinction of being the fastest growing and highest volume remittance market in the world. According to the IDB report, remittances total more than the region receives in development assistance plus foreign direct investment! Whereas remittances accounted for 2.2% of GDP for all of Latin America, they made up 11.1% of Central America's and 6% of the largest

Caribbean countries'. Approximately 25 million Latin-American-born adults live outside their country of origin, and it is estimated that 65% of them send money home. Three-quarters of remittances to Latin America come from the United States.

While generally emphasizing the beneficial effects of remittances, the IDB admits that "remittances are a symptom of disparate opportunities among countries," and that "they reflect the general failure of development across most [Latin American] countries."[24] Babb points to the high human cost involved in the remittance phenomenon—the specter of "people who work far from family and community, for low wages, and often without legal rights or protections."[25] It has been estimated that between 300 and 700 El Salvadorans, for example, set out from their country for the United States every day![26] Meanwhile the situation of immigrants in the U.S. is deteriorating. A 2007 study commissioned by the IDB shows that roughly 80% of Mexicans and Central Americans believe that discrimination against them in the U.S. is rising. Over 80% say it is more difficult to find good-paying jobs than it was a year ago. In addition, U.S. border states are contemplating or passing legislation that severely punishes employers of illegal immigrants. Remittances are a fragile crutch propping up countries and governments that, while sporting positive macroeconomic growth numbers, fail to deal with essential development issues including income distribution, social investment, and employment security.

Imbalances in local communities caused by multinational firms. One pernicious example of this effect has to do with the disconnect between economic activity in Latin America's Free Trade Zones and in the rest of the economy. In a incisive and in-depth comparative study of economic development in Costa Rica and the Dominican Republic, Sanchez-Ancochea shows how export-based development approaches, whether commodity (apparel) or high-tech (electronics), are not working.[27]

The Dominican Republic has seen the rise of a mature apparel industry in its Free Trade Zones. Several large companies, with significant local ownership, have moved into "full-package" manufacturing, in which firms acquire their own fabrics, cut, sew, add features, ship direct to buyers, and even contract with designers. The apparel sector has generated over 100-thousand jobs. Despite the positive effects, overall contribution "to capital accumulation and long-term growth . . . has been limited." In apparel this failure is mainly due to the sector being a commodity market in which "developing countries can only expand their share in the global . . . market by displacing other developing countries."[28] In this grim game of musical chairs, low wages are the key to success.

In Costa Rica, by contrast, development has been based on an active policy of export diversification along with a long-term commitment to education for its work force. The result has been Costa Rica's attracting high-tech firms to its shores (e.g., Intel). Sanchez-Ancochea shows that, unfortunately, even such a seemingly enlightened strategy has not contributed to acceleration of economic growth in the country. High-tech activity is still simple assembly located in FTZs, and it has failed to link to the rest of Costa Rica's economy. Even as inputs to the export manufacturing sector climbed, local purchases of inputs decreased (e.g., from 10% in 1994 to less than 3% in 2001). Part of the problem is finding local suppliers—even for something as basic as office furniture they either don't exist or can't compete. There is no doubt that value-added to both apparel and high-tech manufacturing has been substantial. But, as Sanchez-Ancochea points out, the value added has accrued mostly to profits which have been repatriated out of the country into the coffers of Trans-National Corporations (TNCs).

Exemption of powerful groups from taxation. The neoliberal regime has led to wholesale abandonment of income and wealth redistributive goals in Latin America. Rather, countries in the region have heeded the advice of international tax consultants regarding "best practices," and have sought to implement "neutral" tax policies. Taxes on business profits on average have declined from 43% in 1985 to around 30% at the end of the 1990s. In Central America and parts of South America, corporate tax rates are even lower. In certain sectors, like tourism and fishing, profits are untaxed. The average top personal income tax rate in Latin America has similarly declined from 50% in 1985 to 30% in 2004. Lora points out that a number of countries have exempted from income tax many more people at the lower end of the income spectrum, and have lowered the upper income bracket to subject more higher earners to the maximum rate. This has the effect of making the system more progressive overall, but less progressive at the higher end—shifting more of the burden to the middle class.[29]

Neoliberal reforms have made the greatest inroads in the area of taxation through adoption of value-added taxes (VAT). In Latin America VAT, assessed uniformly on final consumption, came into being under the neoliberal regime. In the 1980s VAT grew to around 10%; by the end of the 1990s the average was closer to 15%. VAT is obviously highly regressive, representing a much larger percentage of income or wealth for people the poorer they are.

Lora makes the case that although income tax structures in Latin America tend, in part, to be less progressive, and VAT taxes very regressive, these factors by themselves do not necessarily produce greater concentration of wealth. Whereas "elites can undermine the application of . . . redistributive mechanisms," especially if they are of the 'soak the rich' variety, redistribution can be effected through the way tax receipts are spent.[30] He points out that, in fact, indicators of social spending in the region, which comprise one measure of redistribution effects, have increased from 9.3% of GDP in 1990 to 12.2% in 2003.

Summary of the provincials' critique

The provincial superiors of the Latin American Jesuit provinces summed up their appraisal of the neoliberal economic regime as a "growing repudiation of the general direction of the economy which, far from improving the common good, is deepening the traditional causes of public discontent: inequality, misery, and corruption." In the 2006 Latinobarómetro poll, Latin Americans appear to be reaffirming the provincials' observations by registering their discontent with the system. Almost three quarters of the respondents think their countries are governed, not for the good of all, but rather for a few powerful groups. In the same vein, only 27% are satisfied with the functioning of the market economy in their countries.

Earlier, this paper discussed the phenomenon of relative poverty, an indicator of income inequality that hasn't changed in Latin America over the past quarter century. ECLAC's

Social Panorama suggests that several countries have achieved improvements in distribution in recent years, "although small." But, it also admits that Latin America's highly inequitable and inflexible income distribution has been . . . greater than that seen in other world regions." Echoing ECLAC's assessment, the 2007 United Nations Millennium Development Goals Report states that among all developing areas income inequality remains highest in Latin America "where the poorest fifth of the people account for only about 3% of national consumption." Structural adjustment, along with technological advances, have increased the returns to assets that are most productive (e.g., education and capital)—assets that the poor lack. So, even though structural adjustment reforms may have contributed to macro-economic growth in the region, the benefits accrued primarily to large organized moneyed interests (in many cases foreign) and did not lead to commensurate increases in income for the poor. Edward presents data showing that most economic growth under the neoliberal regime benefits only 12% of the world's population—essentially the richest 50% in the developed world plus the richest 13% in Latin America! Where the poor have received any trickle down from economic growth, it has been, at best, an increase of 1% in consumption for every 2% of growth.[31] Pratt contends that neoliberalism in Latin America causes a condition of 'demodernization' for large sectors of the population, "whose labor and meager capacity for consumption are not required."[32]

Part of the misery referred to by the Jesuit provincials pertains to unstable social capital: scarce, low-quality education, 'dismal' health conditions, destruction of natural resources. During the decade since their letter was distributed, some advances have been made in Latin America. Primary school enrollments have grown from 87% in 1991 to 97% in 2005. The news is not as good for secondary education; and this is critical in light of an ECLAC estimate that a minimum 10 years of schooling is necessary to pull a person out of poverty.

On the health front all countries have made progress in reducing child mortality, from 54 deaths per 1,000 births in 1990 to only 31 in 2005. Also, by 2005 89% of women giving birth were attended to by skilled practitioners.[33] In general, however, neoliberal-inspired decentralization and privatization of health care has had negative consequences in Latin America. Structural adjustments in this area, "in the name of cost-cutting and efficiency promotion have made access to health services extremely difficult for millions of poor people."

Ecological degradation is an old problem in Latin America; but the pace of the problem, particularly deforestation, has been accelerating. This phenomenon seriously threatens biodiversity and enhances greenhouse gas emissions. The area of land in the region covered by forests has dropped precipitously from 50% in 1990 to 46% in 2005.[34]

This paper has already discussed how markets without social controls can lead to "hot money," concentration of value-added to the powerful, and lack of restraint in the treatment of workers. One particularly troubling aspect of worker treatment that the Jesuit provincials do not emphasize is violation of workplace rights, especially the right to be represented by a union. One study looked at the status of rights to free association and collective bargaining (FACB) in light of neoliberal economic globalization.[35] The researchers' analysis suggests that those countries more open to trade were more likely to protect these rights; whereas the degree of foreign direct investment was unrelated to them. For the 20 Latin American countries in their study, however, workplace abuses were disturbingly common. On a 10-point scale representing the level of FACB rights violations, the region's average was 5.11, and half the countries scored above 6.5 (Columbia had a "perfect" score of 10!). Three of the lowest scores were assigned to small former British colonies. Structural reforms pertaining to workplace issues have involved new labor legislation that makes labor more "flexible" and is ostensibly "designed to make it easier for labor markets to adjust to the changing structure of production." Typical provisions, however, include expanding reasons for legally firing workers, reducing severance pay, allowing temporary and contingent workers, and curtailing the right to strike.

Conclusion

In November 1996 the Latin American Jesuit provincials sounded a continent-wide alarm: an ideologically-driven set of economic policies was riding the wave of globalization inundating the region. International financial institutions, like the World Bank, IMF, IDB, representing the world's most powerful and wealthiest interests—both governmental and corporate—were imposing neoliberal structural adjustment policies on the developing countries of Latin America and the Caribbean. Neoliberalism mandates the radical dismantling of barriers to economic activity in order to foster growth; apologists promised that trickle down effects of economic growth would benefit all segments of society. The Jesuit provincials framed their objections to the neoliberal regime in theological terms: the ideology was idolatrous. It placed the market above the human person, and made it more than "a useful and even necessary instrument to improve and increase supply and reduce prices." The market under neoliberalism is "the means, the method, and the goal that govern relationships among human beings." The provincials claimed the ideology, in condemning millions of Latin Americans to poverty as the inevitable price for economic growth, reflects a "culture founded on a conception of the human person and society incompatible with the values of the Gospel" (p. 43). In their critique, however, they focused on the real-world consequences of the application of the ideology—the actual economic impact structural adjustment has on the region's population, and especially on the poorest segments.

In the years since the letter was published, the neoliberal regime has maintained its hold on Latin America. Its success as an economic system has, however, been mixed at best. As the provincials reported in 1996, economies have grown (but erratically), inflation has apparently been tamed and the current account for many countries has begun to show a surplus. The latter is due partly to reductions in government spending—necessary as well as wasteful. The cost underlying the positive economic indicators has been high: implosion by hot money of national economies and gross and growing inequality in the distribution of incomes, wealth, and tenancy. Growth and value added in the region has tended to enrich an elite minority, often foreign. The smallest and weakest producers have been left unprotected, and millions have been forced into informal sector employment, emigration, or both. Governments have been severely constrained in their ability to serve the needs of citizens. The gains under neoliberalism have come at the expense of the poor.

Resistance to the neoliberal juggernaut in Latin America, however, has flourished since the Jesuit superiors wrote their letter, and the critique has been amplified. Popular movements, many global, have joined voices and forces to slow down or halt structural adjustments. Trade and economic alliances in the region—especially Mercosur in South America—have reduced the ability of IFIs and Northern free-traders to impose adverse fiscal measures on member states. Newly elected national governments are shifting away from slavish conformity to structural reforms toward economic policies that balance out market liberalization with social investment.

Finally, the architects and general contractors of neoliberalism are slowly revising the ideology's blueprint. Under fire for poor results, and for harm done, it is as if they are responding that "of course majorities shouldn't be hurt by liberalizing reforms." Jorge Castañeda, Mexican foreign minister under free-trader Vicente Fox, has suggested a "proactive agenda of things that are worth pursuing regardless of whether they are pro- or anti-neoliberal"—things like higher taxes for social programs and reduction of poverty through long-term government assistance. Economists are admitting that unbridled free-market approaches fail to allow for valuable investment in social capital. Some are calling for reregulation of financial and capital flows, industrial policy, more public outlays for education, health, environment.[36] And the moral, prophetic analysis articulated by the Jesuits is being echoed anew by the Latin American Catholic hierarchy.

At their meeting in Aparecida, Brazil, in May 2007, the Latin American Catholic bishops announced that "the present economic model must assume enormous responsibility. It privileges the excessive search for wealth, over and above the lives of individuals and peoples and the care of the natural environment."[37] In his address to the meeting, Pope Benedict XVI cautioned that "although certain aspects [of globalization] represent an achievement of the great human family . . . nevertheless it also carries the risk of economic gain as the supreme value." In the bishops' final report, they recommend a new form of globalization, globalization of solidarity. Globalization of solidarity is an ideological alternative to neoliberalism that would entail working "for the common global good": just regulation of financial movements and commerce, cancellation of external debt to enable social investment, regulation to control capital speculation. The bishops recommitted the Church to "the preferential option for the poor," and declared unequivocally that "justice in commerce must be promoted."

In their letter the Jesuit provincials called for educators to analyze and promote understanding of neoliberalism, its underlying rationale, and its impact on human beings. I offer this article as an attempt to answer their call.

End Notes

[1]"Letter and study document on neo-liberalism in Latin America." *Promotio Justitiae*, no. 67, May 1997, pp. 43-60.
[2]Ricardo Falla, "Is neoliberalism an imaginary monster?" University of San Diego, Christian Social Justice on the Web, 1997, p. 1.
[3] *Ibidem*.

[4] Most of the data in this article are taken from two reports of the United Nations' Economic Commission for Latin America (ECLAC): *Economic Survey of Latin America and the Caribbean, 2006-2007*, and *Social Panorama of Latin America 2006*.

[5] One particularly egregious case involves one of the world's richest men, Carlos Slim. In 1990 the Mexican government of Carlos Salinas sold the national telecommunications mammoth, Telmex, to Slim, along with a promise to allow him to maintain a monopoly in the industry for years. To top off the deal, it gave him the sole license to provide cell phone service in Mexico!

[6] Sarah Babb, "The social consequences of structural adjustment: Recent evidence and current debates." *Annual Review of Sociology*, No. 31, 2005, pp. 199-222, p. 212.

[7] Poll results are from Corporación Latinobarómetro, *Informe Latinobarómetro 2005.*

[8] Babb, *op. cit*., p. 214.

[9] David Harvey, *A Brief History of Neoliberalism*. New York: Oxford University Press, 2005, p. 74.

[10] Babb, *op. cit*., pp. 206-207.

[11] Ales Bular & Soojin Moon, "Is fiscal adjustment more durable when the IMF is involved?" *Comparative Economic Studies*, no. 46, 2004, pp. 373-399, p. 395.

[12]Misha Kokotovic, "Neoliberal noir: Contemporary Central American crime fiction as social criticism." *Clues*, no. 24(3), 2006, pp. 15-29.

[13] Babb, *op. cit*., p. 202.

[14] Clifford E. Griffin, "Democracy and political economy in the Caribbean." In I. L. Griffith (Ed.), *The Political Economy of Drugs in the Caribbean* (pp. 113-137). New York: St. Martin's Press, 2000.

[15]Richard L. Bernal, Winsome J. Leslie, & Stephen. E. Lamar, "Debt, drugs and structural adjustment in the Caribbean." In *The Political Economy of Drugs in the Caribbean* (pp. 58-80).

[16] *Ibid*., p. 75.

[17] A particularly twisted example of how the neoliberal regime has affected narco-trafficking is the "banana war." During the 1990's the Clinton Administration complained to the WTO about the special status that bananas from the Caribbean islands enjoyed in the EU. Bananas accounted for 75% of the countries' exports and provided employment for over one-quarter of their labor force. The U.S. interest in the free-trade issue was spurred by the multi-million dollar lobbying of U.S.-run banana firms, especially Chiquita. The WTO upheld the U.S. complaint, allowing U.S. companies operating in Central and South America to flood European markets. General John Sheehan, former head of the U.S. Atlantic Command, complained that the action exposed the island countries to increased drug trafficking risks. The Prime Minister of Grenada predicted that removing the islands' trade protections would increase the level of narcotics activity. Griffin comments that "one of globalism's paradoxes is huge adjustment costs that create and exacerbate conditions conducive to drug trafficking and money laundering and undermine economic and political stability throughout the region" (*op. cit*., p. 119).

[18] Bernal et al., *op. cit*., p. 73.

[19] Griffin, *op. cit*.

[20] Jorge Rodriguez Beruff, "'Narcodemocracy' or anti-drug Leviathan: Political consequences of the drug war in the Puerto Rican high-intensity drug-trafficking area." In *The Political Economy of Drugs in the Caribbean* (pp. 162-182).

[21] *Ibid*, p. 179.

[22] Harvey, *op. cit*., p. 69-70.

[23] Inter-American Development Bank. *Remittances 2005: Promoting financial democracy,* March, 2006.

[24] *Ibid*., pp. 6, 15.

[25] Babb, *op. cit*., p. 216.

[26] This information was provided to the author in 2007 by Dean Brackley, S.J., of El Salvador's University of Central America.

[27] Diego Sanchez-Ancochea, "Development trajectories and new comparative advantages: Costa Rica and the Dominican Republic under globalization." *World Development*, no. 34, 2006, pp. 996-1015.

[28] *Ibid*., pp. 1002-1004.

[29] Eduardo Lora, "Trends and outcomes of tax reform." In E. Lora (Ed.) *The State of State Reform in Latin America* (pp. 185-212). Washington: The Inter-American Development Bank, 2007.

[30] *Ibid*., p. 205.

[31]Peter Edward, "Examining inequality: Who really benefits from global growth?" *World Development*, no. 34, 2006, pp. 1667-1695.

[32] Kokotovic, *op. cit.*, p. 26.
[33] United Nations Department of Economic and Social Affairs. *The Millennium Development Goals Report 2007*.
[34] *Ibidem*.
[35]Eric Neumayer & Indra de Soysa, "Globalization and the right to free association and collective bargaining: An empirical analysis." *World Development*, 34, 2005, pp. 31-49.
[36] See, for example, Edward, *op. cit.*, Joseph Stiglitz, "Globalism's discontents." *The American Prospect*, no. 13, Special supplement, Winter 2000, pp. A16-A21, and L. Taylor, "Introduction." In Taylor, L. (Ed.), *After Neoliberalism: What Next for Latin America?* (pp. 1-15). Ann Arbor, MI: University of Michigan Press, 1999.
[37] Francis Chamberlain, "Good news from Brazil: A report on the Latin American bishops' meeting." *America*, no. 197(5), August, 2007, pp. 21-24.