II Taking Stock

Starting in the late 1980s, most Latin American countries began introducing market-based structural reforms in a range of areas, especially international trade, the financial sector, the tax system, and state enterprises. These policies were aimed at increasing the role of market forces, after years of government intervention, and promoting greater integration with the global economy. Structural reforms were combined with measures aimed at establishing financial and macroeconomic stability, primarily by disciplining monetary policy and emphasizing fiscal sustainability.

This section reviews the main outcomes of the stabilization and structural reform programs and assesses the factors, both external and internal, that contributed to these results. To summarize, although reform programs were instrumental in arresting high inflation and sustaining inflation at a low level, and providing an initial boost to growth, the 1990s were another period of considerable disappointment for the region. The main economic and social outcomes eventually fell well short of expectations in terms of permanently boosting growth and reducing poverty and income inequality. External factors can partially explain this outturn, particularly in the late 1990s. Their impact was magnified, however, as these shocks interacted with domestic rigidities and macroeconomic vulnerabilities, leading to renewed bouts of financial instability. The structural aspects of reform programs yielded up-front benefits but were not comprehensive and enduring enough to catalyze sustained growth. In particular, the institutional framework for conducting market-based activity was generally neglected.

Main Economic and Social Outcomes

Inflation

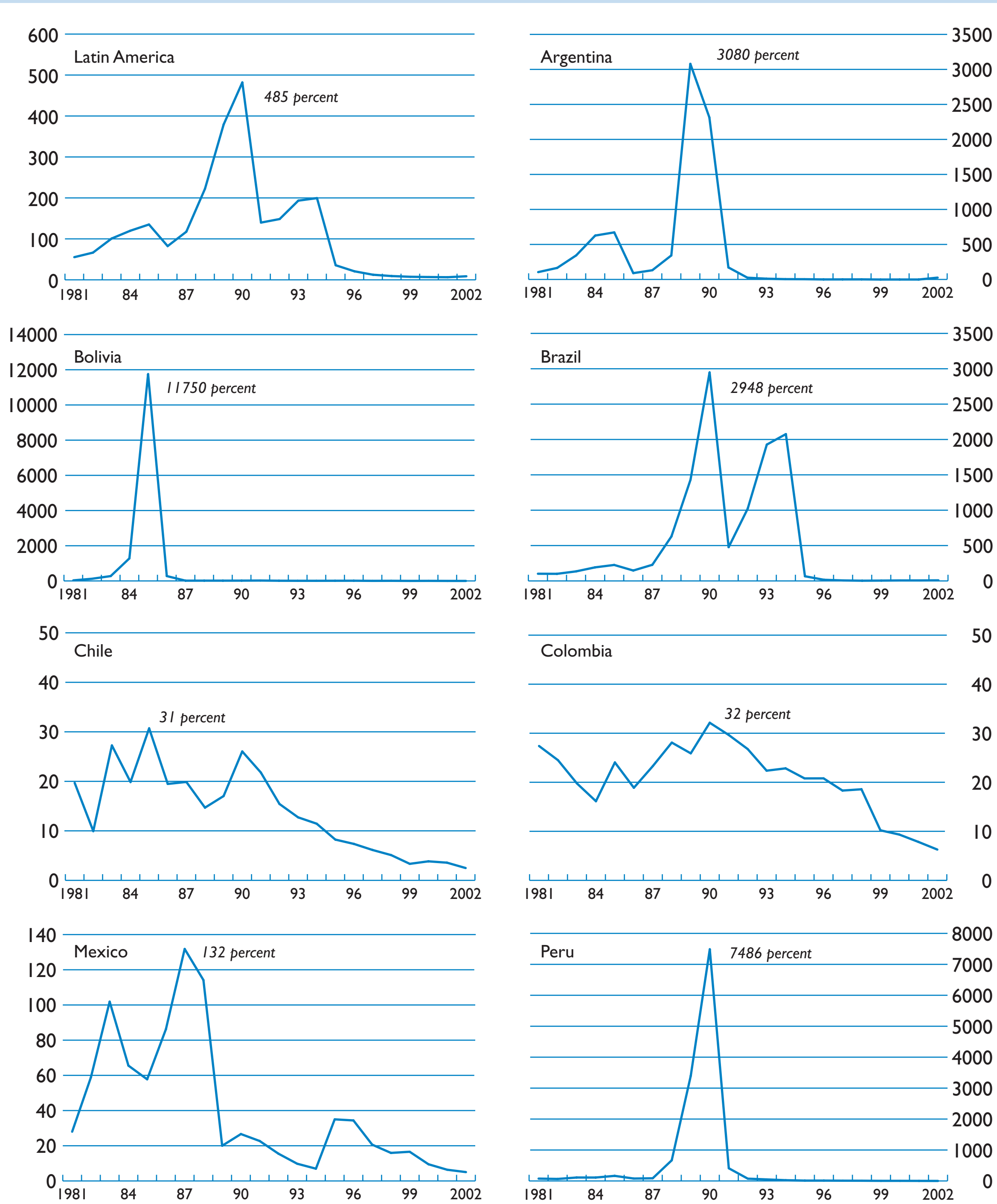
Inflation control was the most notable success of the stabilization and reform programs of the 1990s, in stark contrast to Latin America's long history of high inflation and sporadic bouts of hyperinflation. At the end of the 1980s, regional inflation hit nearly 500 percent, with even higher peak rates in Brazil and Argentina (Figure 2.1). Under these conditions, the economic, social, and political costs of uncontrolled inflation became starkly evident. High and volatile inflation undermined macroeconomic stability and growth, and exacerbated income inequality and poverty. Financial intermediation was disrupted; resources were increasingly devoted to unproductive activities; relative prices became distorted; and confidence in longer-term economic prospects and the direction of policies was undermined.

Against this background, a strong public consensus emerged that inflation should be reduced to low levels. Most Latin American countries, especially those with past records of hyperinflation, initially elected to disinflate through exchange rate-based stabilization plans.[3] Although the choice of firmness of the exchange rate arrangement varied across countries, ranging from Argentina's adoption of a currency board under its convertibility plan to crawling pegs in countries such as Brazil and Mexico, the general strategy yielded impressive reductions in inflation. Countries that opted for more flexible strategies with multiple intermediate objectives—for example, the approach taken in Chile—tended to experience more gradual reductions in inflation; generally, these countries had lower initial rates of inflation and benefited from the retention of greater policy flexibility.

By the end of the 1990s, only two Latin American countries had inflation rates of more than 10 percent, and the regional average had dropped to well below 10 percent. The importance of this achievement should not be underestimated. Gains in inflation control have proved to be enduring, even when exchange rate-based stabilization plans ultimately became unsustainable. Even though the transition to more flexible monetary arrangements, notably inflation targeting in the context of floating exchange rate systems, was accompanied by initial financial instability and sharp exchange rate depreciations, the in-

[3]Given that monetary anchors had failed to control inflation, exchange rates were viewed as a more effective anchor that would introduce credibility to policy that the central bank lacked under a discretionary framework. These issues are discussed in more detail in Section IV.

Figure 2.1. Selected Latin American Countries: Inflation Performance
(Annual percentage change in consumer price index)



Source: IMF, World Economic Outlook database.

Table 2.1. International Comparison: Growth in Real Per Capita GDP
(Annual percent change)

	1981–90	1991–97	1998–2003
Latin America	–0.6	2.5	–0.1
Industrial countries	2.5	1.4	1.8
Other developing countries	1.9	2.6	3.3
Asia	4.8	6.5	4.8
Other Asia[1]	2.8	4.1	1.1
Eastern and Central Asia Europe	1.2	0.7	2.6
Middle East	–1.3	1.3	1.8
Sub-Saharan Africa	–0.6	–0.5	0.7

Source: IMF, World Economic Outlook database.
[1]Excluding China and India.

creased credibility of commitments to low inflation reduced the pass-through of these shocks. For example, the financial crises in Mexico (1994–95), Brazil (1999 and 2002), and Argentina (2002) caused only transitory increases in inflation of a magnitude much smaller than the spikes observed in the 1980s.[4]

Economic Growth

A key objective of the stabilization and structural reforms of the 1990s was to permanently boost growth following the dismal performance in the previous decade (Table 2.1). During the 1980s, per capita GDP fell at an average annual rate of about ½ of 1 percent, with nearly all Latin American countries experiencing negative growth—although Chile and Colombia were notable exceptions.[5]

Following the reforms implemented in the late 1980s and early 1990s, annual real per capita GDP growth in the region initially picked up to 2½ percent, on average, during 1991–97. This improvement reinforced confidence in the payoff to reforms, even though growth in this period still fell well short of the achievements of some other fast-growing regions, particularly Asia, as well as of Latin America's own performance in the 1960s and 1970s.

Aggregate per capita income growth rates for the region masked considerable cross-country variation, however (Figure 2.2). The strongest performances were seen in those countries that aggressively pursued reform agendas early on. Indeed, annual per capita income growth for 1990–97 averaged more than 6 percent in Chile, nearly 5 percent in Argentina, and more than 3 percent in Peru.

In the event, Latin America's economic revival was short-lived. By the late 1990s, growth in the region began to deteriorate. Beginning with the worldwide contagion from the Asian and Russian crises in 1997–98, financial strains intensified in the region, and real per capita GDP stagnated during 1998–2003. Again, there was considerable variation across countries. For example, incomes contracted sharply in Argentina, Uruguay, and Venezuela, and more moderately in Colombia and Ecuador, while staying roughly flat in Brazil, Bolivia, and Peru (Table 2.2). The only countries experiencing positive per capita income growth over this period were Chile and Mexico—in Mexico's case, this partly reflected the transformation of its economy associated with the North American Free Trade Agreement (NAFTA) and the benefits resulting from strong U.S. growth in the late 1990s.

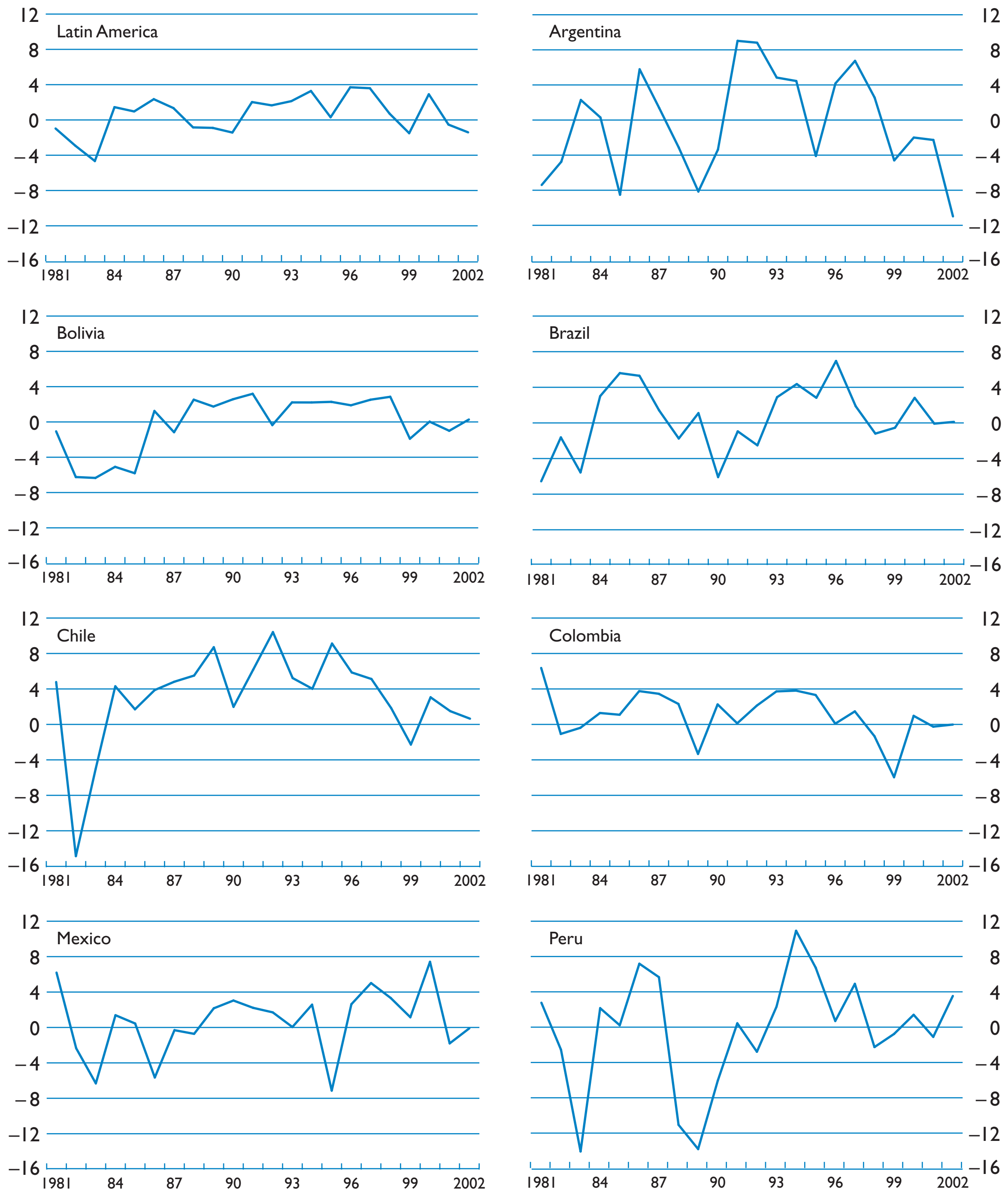
Viewed relative to a longer period, Latin America's growth performance over the past two decades is somewhat disappointing. Essentially, since the region's last period of rapid growth in the 1960s and 1970s, there has been minimal change in per capita GDP (Figure 2.3). The fastest-growing country—Chile—has been able to raise its per capita income at an average annual rate of 3.1 percent, making it a star performer in the region but still falling well below rates seen in the East Asian countries. Consequently, countries in the region have generally not been able to close the relative income gap with advanced economies (Figure 2.4).[6]

[4]There is emerging evidence that the pass-through of exchange rate depreciations to inflation has been falling in Latin America. See, for example, Carstens and Werner (1999), Mihaljek and Klau (2001), and Belaisch (2003).

[5]For a discussion of the factors that contributed to the fall in growth during the 1980s, see Loayza, Fajnzylber, and Calderón (2003).

[6]A recent report by Brazil's Ministry of Finance estimated that per capita income in Brazil is currently just as far from the North American level as it was in 1960. See Brazil, Ministry of Finance (2003).

Figure 2.2. Selected Latin American Countries: Growth Performance
(Annual percentage change in per capita real GDP)



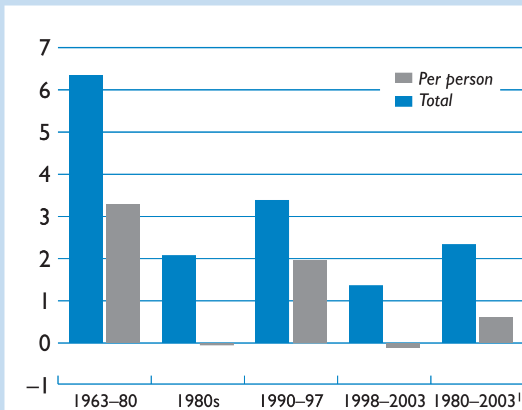
Source: IMF, *World Economic Outlook*, various issues.

Table 2.2. Real Per Capita GDP, 1998–2003[1]
(Average annual percent change)

Latin America	–0.1
Argentina	–2.6
Bolivia	0.1
Brazil	0.0
Chile	1.1
Colombia	–0.9
Ecuador	–0.3
Mexico	1.3
Peru	0.3
Uruguay	–2.7
Venezuela	–4.9

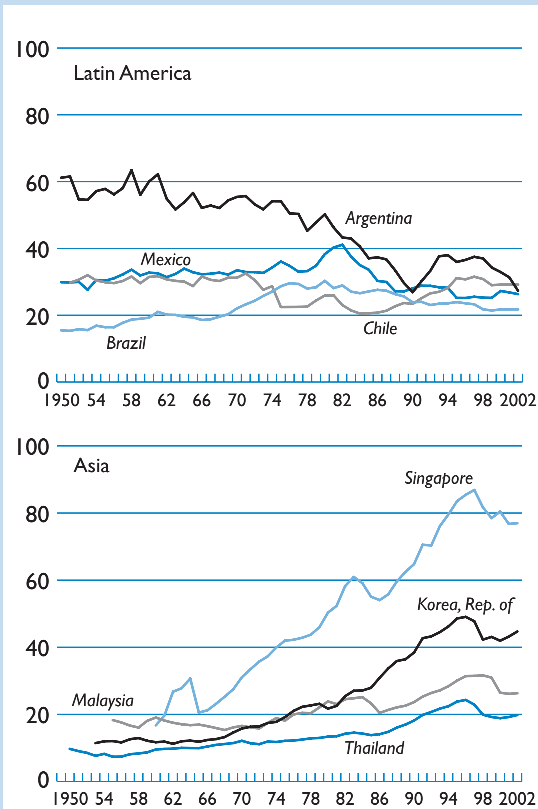
Source: IMF, World Economic Outlook database.
[1]Data for 2003 are estimates.

Figure 2.3. Latin America: Real GDP
(Annual average growth, in percent)



Source: IMF, *World Economic Outlook*, various issues.
[1]Estimate.

Figure 2.4. Selected Latin American and Asian Countries: Per Capita Incomes Compared with the United States, 1950–2000
(Percent)



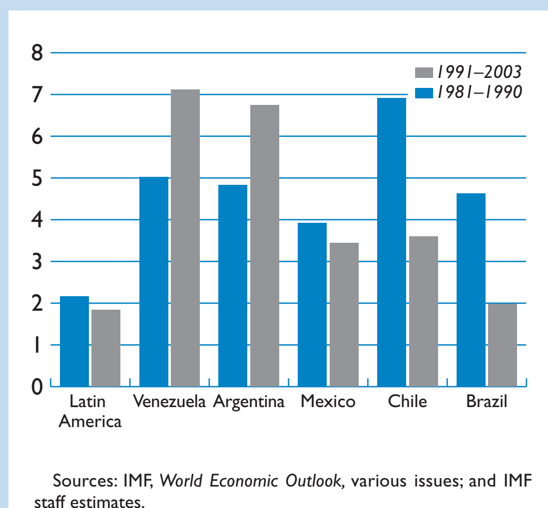
Sources: Alan Heston, Robert Summers, and Bettina Aten, Penn World Table Version 6.1, Center for International Comparisons at the University of Pennsylvania (CICUP), October 2002; and IMF, *World Economic Outlook*, various issues.

With slower GDP growth in the latter part of the 1990s, employment also suffered, particularly for wage earners.[7] The quality of new jobs deteriorated, with many concentrated in microenterprises or self-employment at relatively low wages.[8] The share of the informal sector—defined as employment without access to social benefits or unemployment protection—rose to around 50 percent of total employment in Latin America.[9] As explained in what follows, rigidities in the tax framework in many countries (especially distortionary payroll taxes), combined with inflexible labor market policies, contributed to the rise of informal employment, with adverse feedback effects on government revenues and pension systems.

In addition to weak growth, a continuing feature of Latin American economic performance has been high macroeconomic—especially output—volatility associated with recurrent crises (Figures 2.5 and 2.6). For example, in Ecuador and Mexico, real GDP fell by

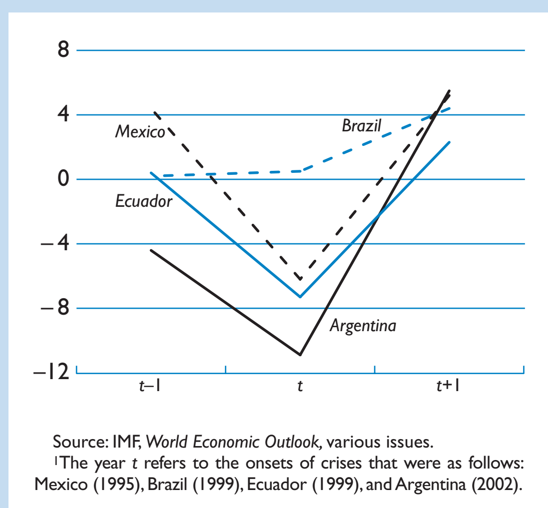
[7]See Stallings and Peres (2000).
[8]See Stallings and Peres (2000) and Saavendra (2003).
[9]An even higher proportion is engaged outside the formal sector in Brazil, where the share of informal employment has steadily increased over the past decade, with negative effects on productivity and real wages. See Brazil, Ministry of Finance (2003).

Figure 2.5. Selected Latin American Countries: Output Volatility
(Standard deviation of annual percentage change)



Sources: IMF, *World Economic Outlook,* various issues; and IMF staff estimates.

Figure 2.6. Selected Latin American Countries: Consequences of Crisis for Real GDP Growth[1]
(Annual percentage change)



Source: IMF, *World Economic Outlook,* various issues.
[1]The year *t* refers to the onsets of crises that were as follows: Mexico (1995), Brazil (1999), Ecuador (1999), and Argentina (2002).

7¼ and 6¼ percent, respectively, in the first year of their crises; in Argentina, output declined by more than 11 percent in 2002. Over this period, Brazil was the only country in the region that did not experience a sharp drop in output in the wake of its financial crises (in 1999 and 2002), although its growth rate dropped close to zero in both episodes.[10] Where initial output losses were steep, it should also be noted that subsequent recoveries were relatively rapid and strong, certainly in comparison with the region's experience in the late 1970s and early 1980s.

Imbalances between the openness of the trade and capital accounts have contributed to output volatility. Improvements in the trade balance following exchange rate depreciations could only partially offset the collapse in domestic demand during crisis periods, given limited trade openness. Generally, the turnarounds experienced in net exports largely reflected import compression as opposed to higher exports (Table 2.3). For example, Mexico's import volumes dropped by 26 percent in 1995, while export volumes rose by less than half as much. Over time, exchange rate effects became more important, as evidenced by surges in export volumes in most countries in the year following the crisis. The limited immediate buffer provided by changes in trade flows underscored the vulnerabilities created by the surge in capital flows, relative to trade flows, in the region in the 1990s.

Poverty and Income Inequality

Despite the enduring reductions in inflation since the early 1990s, the region has generally not been able to secure improvements in poverty and income inequality, fueling discontent with the reform process. Although poverty rates initially declined from their peaks at the beginning of the decade following the debt crises of the 1980s, progress was not sustained, especially in the context of stalled growth and financial crises in the latter part of the 1990s.[11] By 2003, about 44 percent of households in Latin America fell below the poverty line, and almost 20 percent were in extreme poverty (Table 2.4). In absolute terms, the number of poor grew by about 14 million over the decade to reach 214 million in 2002.[12]

[10]Kochhar, Lane, and Savastano (2003) survey the crisis experiences in Ecuador (1999), Mexico (1995), Brazil (1999), Indonesia (1998), Thailand (1998), Malaysia (1998), the Republic of Korea (1998), Russia (1998), and the Philippines (1998). Almost all were characterized by a sharp drop in output in the first year, led by a collapse in domestic demand.

[11]Poverty statistics vary considerably, depending upon the underlying methodology used. See Székely, Lustig, Cumpa, and Mejia-Guerra (2000) for a discussion. In this section, poverty data are based on those compiled in ECLAC (2002). For a discussion of poverty trends, see ECLAC (2002). Morley (2001) and ECLAC (1997) provide various explanations for the persistence of poverty in the region.

[12]World Bank data, which define poverty as those people living on less than $1 per day, show similar poverty trends. Based on this alternative definition, the poverty rate in Latin America edged

Table 2.3. Consequences of Crisis: Current Account Adjustment

Country	Year t	Change in Current Account (percent of GDP)		Export Volume Growth (percent)		Import Volume Growth (percent)	
		t	t+1	t	t+1	t	t+1
Ecuador	1999	17.5	–1.1	0.2	–5.3	–45.7	14.3
Mexico	1995	6.5	–0.2	12.1	21.0	–26.4	24.7
Brazil	1999	–0.5	0.6	5.8	11.5	–10.7	12.1
Brazil	2002	2.9	2.5	7.9	15.7	–12.3	–3.7

Sources: Kochhar and others (2003); and IMF staff estimates.

Table 2.4. Latin America: Incidence of Poverty[1]
(Percent of population)

	1990	2000	2001	2002	2003
Poverty	48.3	42.4	43.1	44.0	44.4
Extreme poverty	22.5	18.1	18.5	19.4	20.0

Source: United Nations, Economic Commision for Latin America and the Caribbean (ECLAC).
[1]Data for 2003 are estimates. Poverty rates are calculated using the cost-of-basic-needs method, which establishes a poverty line based on the cost of a basic food basket. For details, see ECLAC (2001).

Aggregate poverty rates also mask considerable variation across and within countries (Figure 2.7). In general, more rapid growth was associated with greater success in improving indicators of human development (Figure 2.8). But social policies also played a role. For example, during the 1990s, the poverty rate declined by more than 10 percentage points in Brazil and Chile as social spending was raised; education indicators improved; and new, targeted antipoverty programs were introduced. In contrast, the poverty rate rose by 9 percentage points in Venezuela and changed little in Ecuador, Colombia, Guatemala, Honduras, Nicaragua, and Paraguay—all countries where poverty rates remain in excess of 60 percent.[13] Moreover, within countries, poverty is particularly high among indigenous people, especially in Bolivia, Guatemala, and Peru. Although indigenous people represent about 8 percent of the population in Latin America, they make up 25 percent of those living in extreme poverty.

Income inequality in Latin America remains extremely high by international standards, representing a serious social problem.[14] During the 1990s, the average Gini coefficient was 0.52 in Latin America, compared with 0.34 in member countries of the Organization for Economic Cooperation and Development (OECD), 0.33 in Eastern Europe, and 0.41 in Asia.[15] Estimates suggest that inequality trended up-

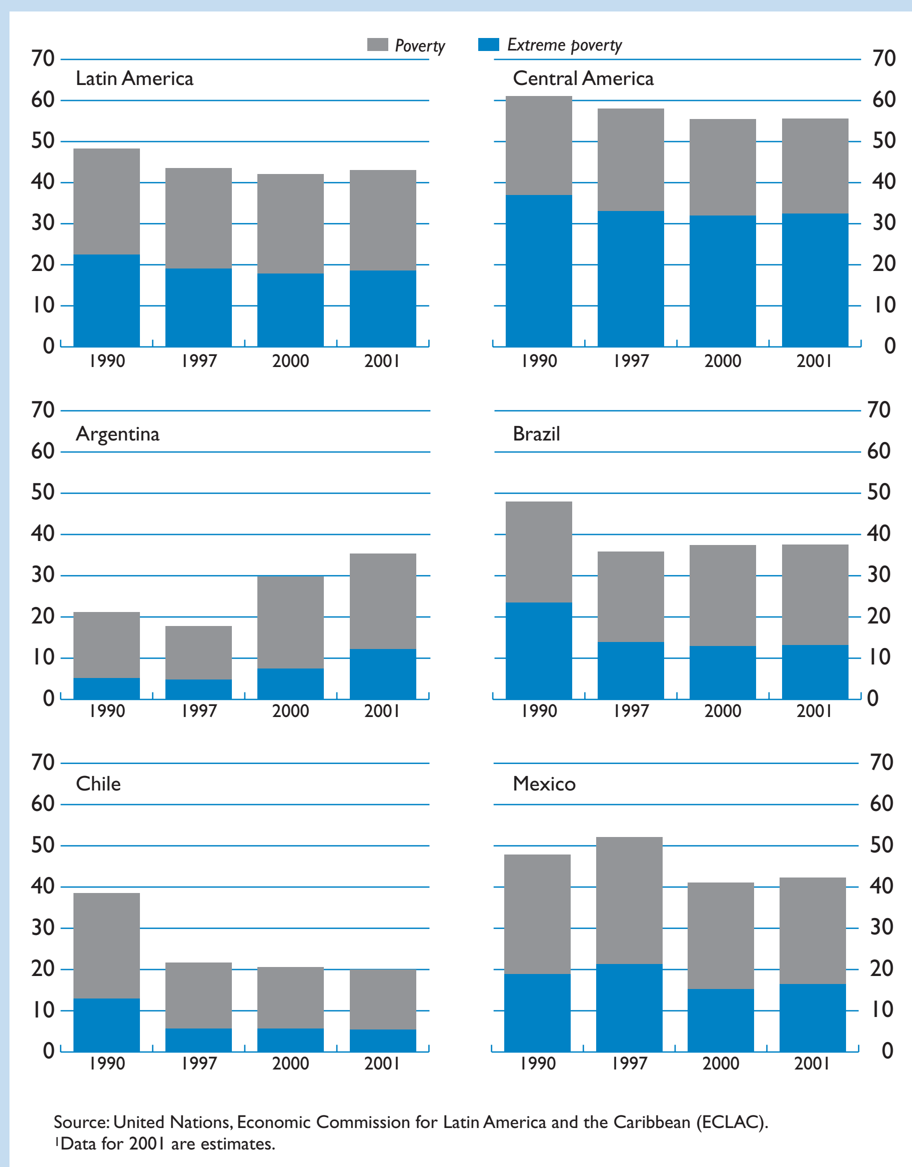
down from 11.3 percent of the population in 1990 to 9.5 percent in 2001, the most recent year for which data are available. In absolute terms, over the same period, the number of people living in poverty rose by about 500,000 people to 49.8 million. For a discussion of World Bank methodology and data, see World Bank (2003c and 2001).

[13]Poverty rates increased sharply in both Argentina and Uruguay in 2001–2002 following financial crises. ECLAC (2003) estimates that poverty in Argentina doubled to 45 percent in 2002 from its 1999 level. Similarly, in Uruguay, poverty is estimated to have increased to 15 percent from about 9 percent in 1999. In Colombia, the impact of higher social expenditures was offset by displacements caused by the ongoing internal conflict.

[14]Deininger and Squire (1996); see also Morley (2001). Empirical evidence suggests that the dominant factor in explaining differences in inequality is the level of education. See Menezes-Filho (2001).

[15]See World Bank (2003b), Deininger and Squire (1996), and Morley (2001). The Gini coefficient (which ranges from 0 to 1) measures inequality; the higher the coefficient, the higher the level of inequality.

Figure 2.7. Latin America: Incidence of Poverty and Extreme Poverty[1]
(In percent of population)



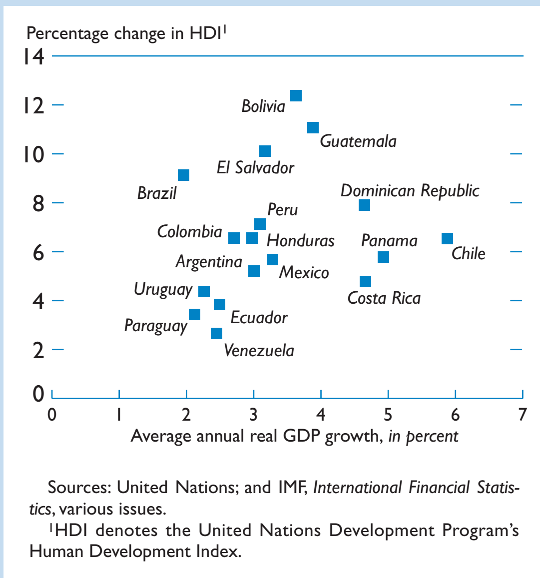
Source: United Nations, Economic Commission for Latin America and the Caribbean (ECLAC).
[1]Data for 2001 are estimates.

ward over the 1990s, although at a slower rate, with the greatest increases occurring in Argentina and Bolivia.[16] Although inequality cuts across all groups, recent evidence by the World Bank points to particularly marked differences according to race and ethnicity. The situation in Brazil has been starkly reported by the Ministry of Finance, which notes that income inequality has not appreciably improved over the past 30 years, and that the richest 10 percent of individuals account for 44 percent, whereas the poorest 10 percent account for only 1 percent, of the country's income.[17]

[16]Székely (2001) estimates income inequality trends based on regression estimates for each country, where the dependent variable is the Gini coefficient and the independent variable is a time trend.

[17]Brazil, Ministry of Finance (2003).

Figure 2.8. Latin America: Economic Growth and Poverty Reduction, 1990–2001



Sources: United Nations; and IMF, *International Financial Statistics*, various issues.
[1]HDI denotes the United Nations Development Program's Human Development Index.

Pervasive inequality in Latin America has had negative consequences for the political economy of the region.[18] Evidence suggests that inequality leads to greater violence and weak institutions, and hampers a country's ability to respond to economic shocks.[19] In addition, higher income inequality has made it more difficult to reduce poverty for a given rate of economic growth.

As well as lowering overall output, macroeconomic volatility may have had adverse effects on income and wealth inequality in the region, as the poor have typically been less able to adapt to economic shocks (Pfeffermann (2002)). In addition, Lustig (1995) argues that economic turmoil forces the poor to sell land or other assets to finance their children's education, undermining their ability to generate income. Lustig and Arias (2000) provide evidence that crises have tended to increase poverty, with the incidence remaining higher even after the crisis has passed. In addition to their obvious social costs, crises indirectly jeopardized the sustainability of reform programs by undermining popular support for them.

[18]For a detailed discussion, see World Bank (2003b).

[19]Evidence on the effect of inequality on growth is mixed. The studies surveyed in Benabou (1996) and Perotti (1996) suggested that higher inequality tended to reduce future growth, but Forbes (2003) finds that this result is reversed when different measures of inequality are used on panel data.

Explaining the Outcomes

External Shocks and Domestic Vulnerabilities

Why did the eventual results of stabilization and structural reform policies fail to match the high expectations of the early 1990s? The external environment played a significant role, especially as Latin American countries generally remained vulnerable to the volatilities that stemmed from the economic cycle in industrial countries and shifts in sentiment toward emerging market financing.[20] There is broad consensus that these global factors, combined with domestic vulnerabilities, led to a degree of volatility in capital flows that was the single most important factor determining outcomes.[21]

Economic activity in the industrial countries, notably the United States, affected Latin America through its impact on trade and capital flows. The evidence strongly suggests that the effects on capital flows overwhelmed the trade impact, both during upswings and downturns, reflecting the region's capital market opening in a context of still-low export-to-GDP ratios.[22] Thus, cyclical slowdown and monetary easing in the industrial countries during 1989–93 enabled the acceleration of capital flows to fast-growing emerging markets in the first half of the 1990s, dominating any negative impact on the region's exports (Figure 2.9). Later in the 1990s, the dominant external influences were upward pressure on interest rates, as activity strengthened in industrial countries, compounded by contagion from emerging market crises in Asia and Russia during 1997–98, which weakened the confidence of global investors.

With external financing having played an important role in fueling Latin American growth in the early 1990s, and a lack of progress in deepening domestic financial markets, these economies were highly vulnerable to shifts in global market sentiment. This was particularly the case for countries that had adopted rigid exchange rate systems while, at the same time, accumulating significant short-term external debt. Together, these conditions led to an environment that was prone to a cascading loss of market confidence.

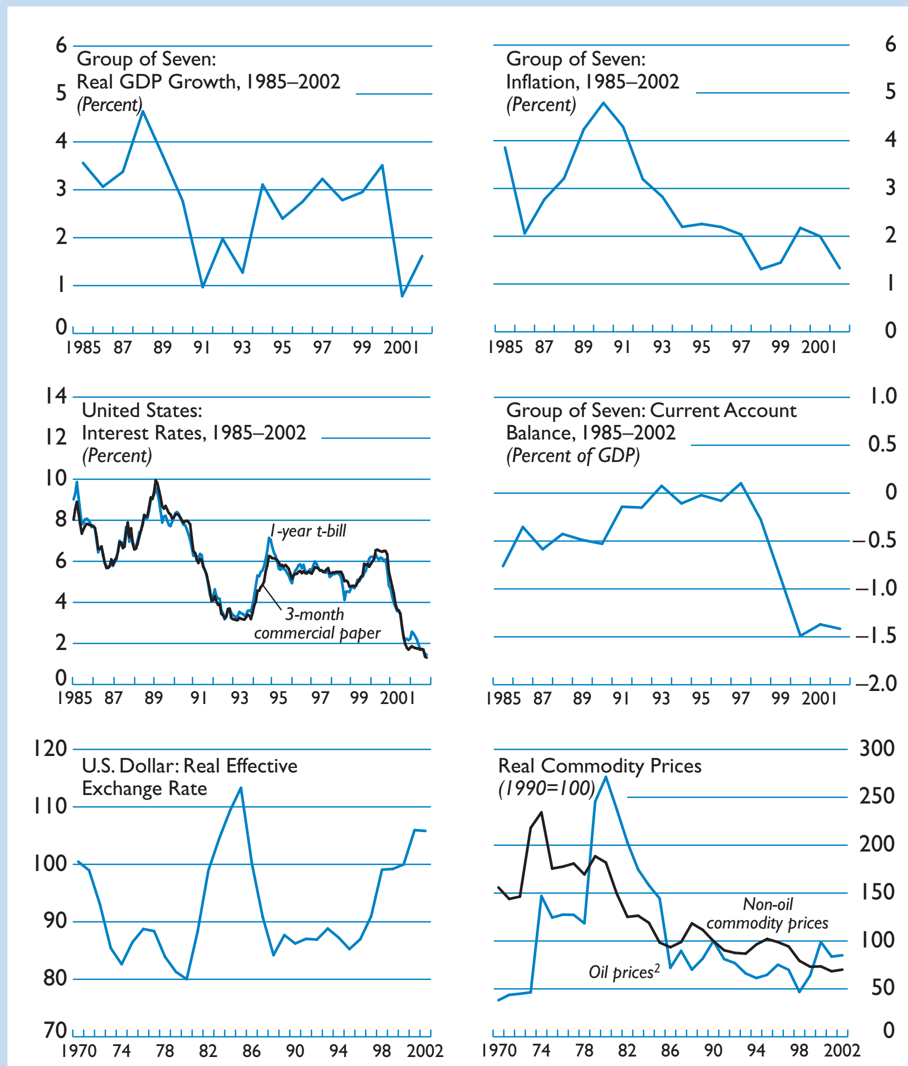
The succession of emerging market crises is identified in Figure 2.10. The first significant disturbance

[20]The analysis early in the decade of Calvo, Leiderman, and Reinhart (1992) presaged many of the subsequent difficulties with external shocks and capital flows to the region.

[21]See Calvo and Reinhart (1999).

[22]Stallings and Peres (2000) provide evidence that economic growth in the region is more closely linked with capital inflows than with trade flows. Fernandez-Arias and Panizza (2001) find that an increase in private net capital flows of 1 percentage point of GDP boosts growth by almost ½ of 1 percentage point.

Figure 2.9. Global Indicators[1]
(Annual percentage change unless otherwise noted)



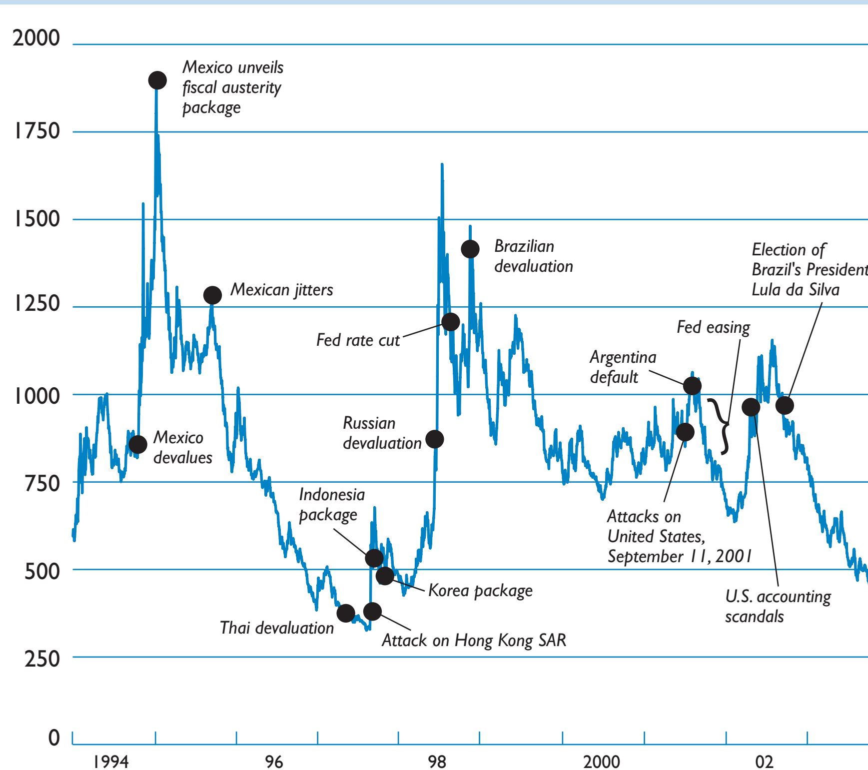
Sources: IMF, *World Economic Outlook*, various issues; and JPMorgan.
Note: The Group of Seven includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
[1]Aggregates are computed on the basis of the purchasing-power-parity weights unless otherwise noted.
[2]Simple average of spot prices of U.K., Brent, Dubai, and West Texas Intermediate crude oils.

in emerging markets in the 1990s was the Mexican peso crisis in late 1994. In this instance, the underlying causes reflected both a deterioration in the external environment, particularly rising U.S. interest rates, and domestic factors, including political shocks, exchange rate overvaluation, financial sector fragilities in a context of a large external financing need, and a highly vulnerable structure of financing.

As a result, the broader impact on other emerging markets was transitory, and global yield spreads quickly returned to the low levels observed before the Mexican crisis (Figure 2.11).[23] Indeed, the re-

[23]Immediate contagion from Mexico was experienced by Argentina, whose fixed exchange rate regime was tested, and successfully defended, in April 1995.

Figure 2.10. Emerging Market Spreads
(In basis points)



Source: JPMorgan, adapted from Fischer (2001).

silience of other markets with respect to the Mexican crisis tended, if anything, to reinforce confidence in the strength of their fundamentals, leading to further capital inflows through 1996.

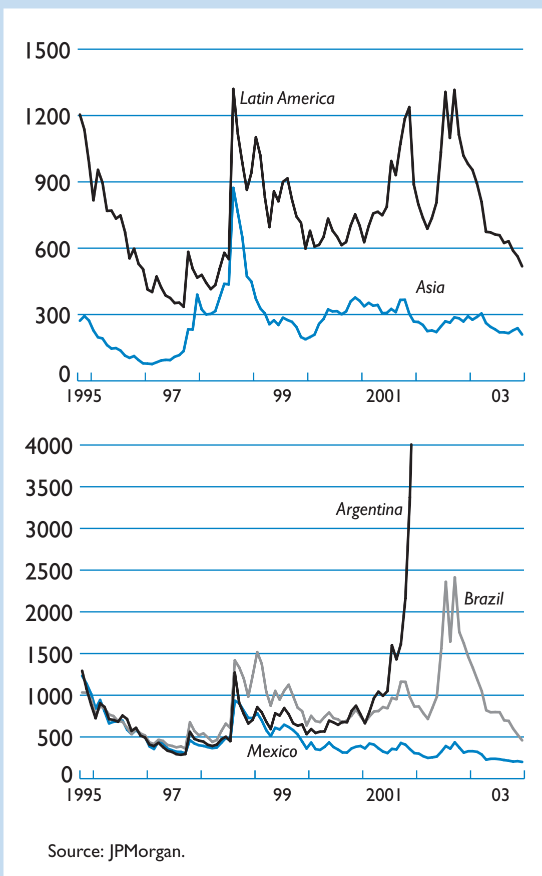
The onset of the Asian crisis in mid-1997, however, had a much more pervasive impact on emerging market financing. In particular, it highlighted the vulnerabilities of economies that appeared to have relatively sound fundamentals to shifts in market sentiment when external liabilities were significant and exchange rate regimes were inflexible. The Russian debt default in August 1998, followed by the Long-Term Capital Management (LTCM) crisis, further underscored these vulnerabilities. Yield spreads in emerging markets jumped, especially at longer maturities, prompting borrowers to shift into increasingly short-term debt as emerging market financing virtually dried up during this period.

Although all countries in Latin America were affected by these changes in external conditions, countries with stronger policy fundamentals and flexibility resisted the strains better. Chile, for example, had significantly reduced external debt during the 1990s, creating fiscal room for maneuver while moving to an increasingly flexible exchange rate regime. Even though Chile's growth in the late 1990s was affected by higher global interest rates and spillovers from elsewhere in the region, a financial crisis was avoided, and fiscal and monetary policies remained on track.[24] Other countries with weaker domestic policies and greater vulnerabilities, however, suffered a series of crises, notably Brazil (1999 and 2002), Ecuador (1999), Argentina (2001), Uruguay and Paraguay (2002), and Venezuela (2003).

Indeed, perhaps the most vexing issue since the early 1990s has been the slow progress of most Latin American countries in establishing greater financial resiliency and sufficient macroeconomic policy flex-

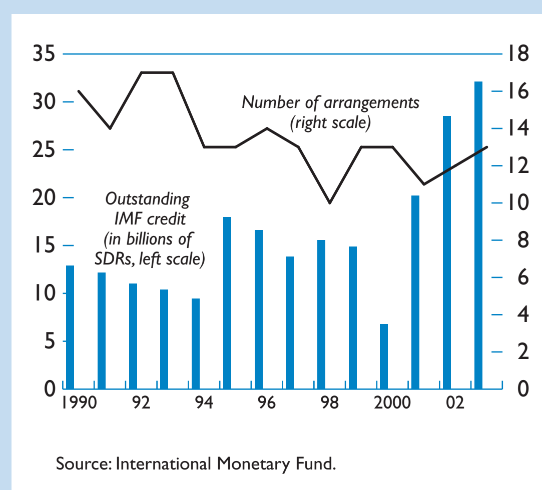
[24]Nevertheless, there was also a notable slowdown in Chile's total factor productivity growth over this period. Although there is not yet a consensus on the sources of this slowdown, it appears to have been at least partly due to a fading of the effects of structural reforms, for instance in education (Beyer and Vergara, 2002).

Figure 2.11. Latin America: Emerging Market Bond Spreads
(In basis points)



Source: JPMorgan.

Figure 2.12. Latin America: IMF-Supported Arrangements



Source: International Monetary Fund.

ibility to cushion the impact of economic shocks, particularly from external sources. In these circumstances, the recurrence of macroeconomic volatility and financial stress was inevitable, perpetuating reliance on IMF and other international official financing support (Figure 2.12 and Table 2.5).[25] These episodes of recurring financial volatility disrupted growth, exacerbated poverty, and contributed to "reform fatigue" in several cases.

Several domestic vulnerabilities contributed to the recurrence of macroeconomic stability and financial crisis in the region. Most importantly, dependence on foreign capital inflows created growing balance-sheet mismatches in the public and private sectors, as foreign currency-denominated debt accumulated, leaving countries exposed to shifts in global market sentiment. Shocks that destabilized the exchange rate then undermined financial stability, creating a vicious circle of feedback effects that magnified the impact on growth. The health of domestic financial systems closely mirrored the boom-bust cycles of capital flows, compounding macroeconomic volatility. After a period of rapid growth in the early 1990s, credit generally collapsed after the mid-1990s, with only Chile being able to maintain a more even pattern of credit growth.

Absorbing external shocks would have required a much stronger fiscal policy and institutional framework than most countries in the region—other than Chile—had developed. Instead, with a tendency toward procyclical fiscal behavior in Latin America, fiscal policy was an additional source of—rather than a solution to—macroeconomic volatility.[26] Thus, government spending generally increased in response to a pickup in growth and declined when financing sources dried up.

[25]Not all programs were framed in a crisis context, however. It should be noted that a number of arrangements with the IMF were precautionary in nature, in the sense that these countries did not expect to use IMF resources. The Poverty Reduction and Growth Facility (PRGF) programs were in support of poverty reduction and growth agendas, and were not necessarily responses to financial crises.

[26]The underlying problem was the lack of fiscal restraint when economic conditions were favorable, which, in turn, led to debt accumulation. When economic conditions deteriorated and market access disappeared, the only options were fiscal restraint or a return to the reliance on inflationary financing of fiscal deficits seen during the 1980s.

Table 2.5. IMF Arrangements in Latin America, 1989–2004[1]

	Type of IMF Program	Beginning Date	Expiration Date	Amount Agreed *(In percent of quota)*	Amount Drawn *(In percent of total package)*
Argentina	SBA	Nov. 89	Mar. 91	66.0	69
	SBA	Jul. 91	Mar. 92	70.1	56
	SBA	Mar. 92	Mar. 96	361.2	100
	SBA	Apr. 96	Jan. 98	46.8	85
	EFF[2]	Feb. 98	Mar. 00	135.3	—
	SBA/SRF[2]	Mar. 00	Jan. 03	800.0	58
	SBA	Jan. 03	Aug. 03	102.7	100
	SBA	Sep. 03	Sep. 06	424.2	23
Bolivia	PRGF	Jul. 88	May 94	. . .	100
	PRGF	Dec. 94	Sep. 98	80.0	100
	PRGF	Sep. 98	Jun. 02	80.0	63
	SBA	Apr. 03	Jun. 04	50.0	75
Brazil	SBA	Aug. 88	Feb. 90	. . .	33
	SBA	Jan. 92	Aug. 93	102.6	9
	SBA/SRF[3]	Dec. 98	Sep. 01	600.0	73
	SBA/SRF[2]	Sep. 01	Sep. 02	400.0	94
	SBA/SRF	Sep. 02	Mar. 05	901.7	63
Chile	SBA	Nov. 89	Nov. 90	15.0	100
Colombia	EFF	Dec. 99	Dec. 02	252.8	—
	SBA[2]	Jan. 03	Jan. 05	200.0	—
Costa Rica	SBA	May 89	May 90	50.0	—
	SBA	Apr. 91	Sep. 92	40.0	76
	SBA[2]	Apr. 93	Feb. 94	17.7	—
	SBA	Nov. 95	Feb. 97	43.7	—
Dominican Republic	SBA	Aug. 91	Mar. 93	35.0	100
	SBA	Jul. 93	Mar. 94	20.0	53
	SBA	Aug. 03	Aug. 05	200.0	20
Ecuador	SBA	Sep. 89	Feb. 91	73.0	36
	SBA	Dec. 91	Dec. 92	79.8	25
	SBA	May 94	Dec. 95	79.3	57
	SBA	Apr. 00	Dec. 01	75.0	100
	SBA	Mar. 03	Apr. 04	50.0	40
El Salvador	SBA	Aug. 90	Aug. 91	40.0	—
	SBA[2]	Jan. 92	Mar. 93	46.6	—
	SBA	May 93	Dec. 94	37.5	—
	SBA[2]	Jul. 95	Sep. 96	30.0	—
	SBA[2]	Feb. 97	May 98	30.0	—
	SBA[2]	Sep. 98	Feb. 00	30.0	—
Guatemala	SBA	Oct. 88	Feb. 90	50.0	43
	SBA[2]	Dec. 92	Mar. 94	34.1	—
	SBA[2]	Apr. 02	Mar. 03	40.0	—
	SBA[2]	Jun. 03	Mar. 04	40.0	—
Honduras	SBA	Jul. 90	Feb. 92	45.0	100
	PRGF	Jul. 92	Jul. 97	70.0	71
	PRGF	Mar. 99	Dec. 02	121.0	69
Mexico	EFF[3]	May 89	May 93	320.0	88
	SBA[3]	Feb. 95	Feb. 97	688.4	73
	SBA	Jul. 99	Nov. 00	120.0	63
Nicaragua	SBA	Sep. 91	Mar. 93	59.9	42
	PRGF	Jun. 94	Jun. 97	125.0	17
	PRGF	Mar. 98	Mar. 02	155.0	77
	PRGF	Dec. 02	Dec. 05	75.0	29

Table 2.5 ***(concluded)***

	Type of IMF Program	Beginning Date	Expiration Date	Amount Agreed *(In percent of quota)*	Amount Drawn *(In percent of total package)*
Panama	SBA	Feb. 92	Sep. 94	72.6	74
	SBA	Nov. 95	Mar. 97	56.4	100
	EFF	Dec. 97	Jun. 00	80.2	33
	SBA[2]	Jun. 00	Mar. 02	31.0	—
Peru	EFF[3]	Mar. 93	Mar. 96	218.4	63
	EFF[2]	Jul. 96	Mar. 99	64.4	53
	EFF[2]	Jun. 99	Feb. 01	60.0	—
	SBA[2]	Mar. 01	Jan. 02	20.1	—
	SBA[2]	Feb. 02	Feb. 04	39.9	—
Uruguay	SBA	Dec. 90	Mar. 92	57.9	9
	SBA[3]	Jul. 92	Jun. 93	30.5	32
	SBA[2]	Mar. 96	Mar. 97	44.4	—
	SBA[2]	Jun. 97	Mar. 99	55.5	91
	SBA[2]	Mar. 99	Mar. 00	31.1	—
	SBA[2]	May 00	Mar. 02	48.9	100
	SBA/SRF	Apr. 02	Mar. 05	694.4	69
Venezuela	EFF	Jun. 89	Mar. 93	281.0	52
	SBA[3]	Jul. 96	Jul. 97	50.0	36

Sources: IMF, Finance Department and Policy Development and Review Department.

Notes: SBA = Stand-By Arrangement, EFF = Extended Fund Facility, PRGF = Poverty Reduction and Growth Facility, SRF = Supplemental Reserve Facility.

[1]Data are as of January 31, 2004.

[2]Precautionary on approval.

[3]Program turned precautionary.

Weaknesses in Structural Reform Programs

Resisting external shocks, reducing macroeconomic vulnerabilities, and building a new growth momentum would have required strong domestic reforms. Successive studies have indicated that the initial reforms in Latin America generally had an impact on growth, but one that declined as improvements in capital, labor input, and total factor productivity were not sustained (Figure 2.13). During 1991–93—the period of fastest reforms—growth picked up, but when the reform process slowed (Figure 2.14), the growth effect diminished as well.[27] Fernandez and Montiel (1997) point out that a more lasting recovery in Latin American growth would have materialized if there had been broader and deeper implementation of reforms. There was also a tendency to attribute a disproportionate amount of the early pickup in growth to structural reforms, as opposed to cyclical factors. For example, the evidence presented in Lora and Barrera (1997) suggested that the reforms implemented during the first half of the 1990s had a substantial effect on productivity, investment, and growth.[28] In contrast, more recent studies based on longer time series indicate that the early estimates may have overstated the benefits of the reforms.[29]

The evidence also does not suggest a link between structural reforms and reductions in poverty and in-

[27]Some studies have analyzed the interaction between structural reforms and macroeconomic stabilization. For example, Ocampo (2004) observes that the most aggressive structural reformers also introduced strong stabilization policies that reinforced the initial results—for example, Chile and Peru in the early 1990s, with Argentina also having been viewed as a strong reformer in this period. Over time, however, rigid stabilization frameworks tended to undermine the effects of reforms. Lora and Panizza (2002) finds that the extent of reforms has tended to differ more across policy areas than across countries.

[28]The Lora and Barrera (1997) estimates suggested that structural reforms had boosted growth by 1.9 percentage points, or a total of 2.2 percentage points if macroeconomic stabilization plans were also included. Other early studies also concluding that the reforms had a positive and significant impact on growth include Fernandez-Arias and Montiel (1997); Easterly, Loayza, and Montiel (1997); and IADB (1997).

[29]Lora and Panizza (2002), as well as Stallings and Peres (2000) and Escaith and Morley (2000), conclude that the reforms had a smaller and less robust effect on growth than had previously been thought.

come inequality. Based on household survey data, Behrman, Birdsall, and Székely (2001) find that reforms in the areas of external trade, capital account liberalization, tax reform, privatization, and labor market reform did not affect poverty and inequality, whereas financial sector reforms may have had a negative effect. Birdsall and Székely (2003) conclude that greater reliance on market dynamics failed to create opportunities for the poor to generate income. Deininger and Squire (1998) emphasize the potential importance of land reform in Latin America for reducing inequality.

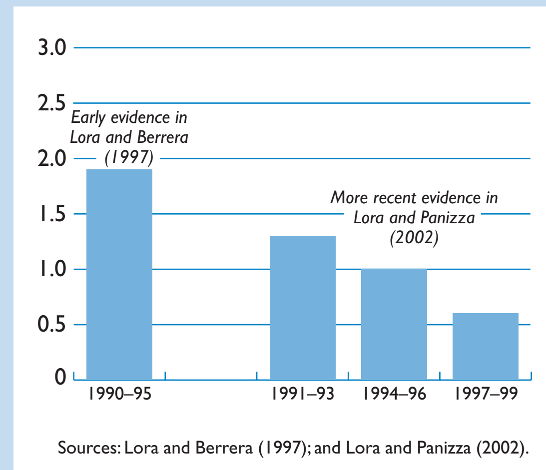
Looking back, it is clear that the structural reform agenda was too narrow in scope and comprehensiveness. Some key areas were neglected, notably making the labor market more flexible, and improving education systems and opportunities. Insufficient attention was given to developing and strengthening institutions, which, recent evidence indicates, play a decisive role in raising growth. And, finally, political economy factors were generally neglected. Inadequate emphasis was placed on combining growth with improvements in social conditions and sustained progress in reducing poverty, which undermined efforts to build and maintain a broad consensus in favor of reforms.

Labor Markets

Labor market reforms have been almost universally neglected across Latin America. Although a full analysis is beyond the scope of this paper, Box 2.1 presents evidence that Latin America's labor market rigidities are generally greater than in other regions. A notable exception is Chile, which made reform of labor legislation an early priority in the 1990s, helped by the popular consensus on restoring labor rights that had been restricted by the previous, military government.[30] In other countries, however, restrictive labor markets contributed to the structural inflexibility of economies that ultimately undermined rigid exchange rate systems. Civil service employment practices were resistant to change. High payroll taxes (including social security contributions) further distorted the policy framework and discouraged employment in the formal sector. As a result, unemployment rates have remained persistently high and informal labor markets have flourished, undermining public finances, productivity, real wages, and growth.

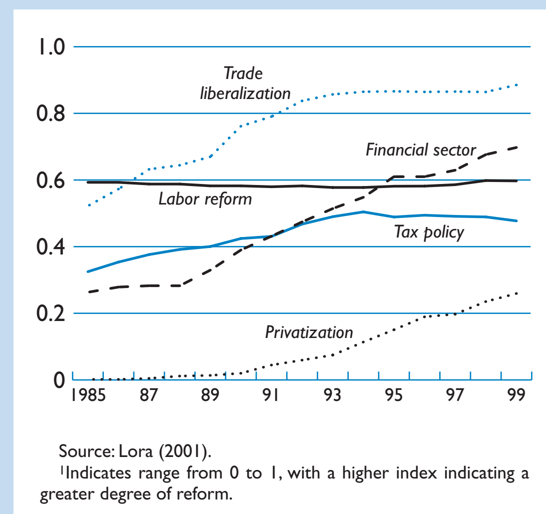
[30]The importance of labor market reforms in Chile's early reform efforts is discussed in Foxley (2003). Foxley points out the benefits of establishing a permanent tripartite dialogue between the government, the private sector, and labor organizations.

Figure 2.13. Latin America: Contribution of Reforms to Economic Growth
(In percentage points)



Sources: Lora and Berrera (1997); and Lora and Panizza (2002).

Figure 2.14. Latin America: Structural Reform Indices[1]



Source: Lora (2001).
[1]Indicates range from 0 to 1, with a higher index indicating a greater degree of reform.

Institutions and Governance

Measures to strengthen institutions and governance were also not aggressively pursued in the reform agendas of most Latin American countries. Over the last decade, evidence has accumulated on the importance of sound institutions in fostering efficient markets, prudent macroeconomic policies, and

Box 2.1. Latin America: Labor Market Reforms

Although economic reforms in other policy areas during the 1990s were uneven within and across countries, labor market reforms across Latin America tended to be widely neglected. Throughout the decade, unemployment rates were persistently high, even when economic growth picked up early on.[1]

One of the major shortcomings of Latin America's labor markets is institutional rigidities. In order to compare the restrictiveness of labor markets internationally, Botero and others (2003) construct an index of legal job protection based on grounds for dismissal, notice and severance payments, and whether the right of job security is anchored in the constitution. Although stronger provisions for job security in poorer countries reflect, to some degree, inadequate social safety nets, Latin America's labor laws are the most restrictive even when compared with those of other low-income regions. A notable exception is Chile, which scored substantially better than the region overall. Of course, this measure has limitations as an indicator of actual practice, as opposed to legal principles, and thus may overstate the gap between Latin America and other regions.

The failure to address labor market rigidities in the context of structural reforms and macroeconomic stabilization during the 1990s was particularly detrimental, given the region's move toward less flexible exchange rate systems. Failure to reform labor markets had the following consequences:

- The benefits of other structural reforms—such as privatization, deregulation, and price liberalization—were not fully reflected in more efficient resource allocation, undermining the region's growth potential;
- The creation of skilled jobs in the formal economy was curtailed, contributing to an increase in the wedge between wages in high- and low-paying jobs;
- Growth in the informal labor market (covering employment on temporary and fixed-term contracts) was encouraged, promoting noncompliance with existing labor laws, adversely affecting productivity, and undermining public finances;
- The adjustment to economic shocks was made more difficult, as was reflected in deeper and longer economic downturns; and
- In terms of distributional consequences, labor market practices have favored those who profit from labor market protection, such as skilled white males, over women; unskilled workers; and, in some countries, indigenous populations.[2] Consequently, inequalities worsened.

The absence of broad-based labor market reforms and persistently high unemployment rates not only had adverse macroeconomic and distributional consequences but also contributed to reform fatigue and, ultimately, the rejection of economic reforms

[1]For a comprehensive discussion of labor market issues in Latin America, see IADB (2004).

[2]At the micro level, a number of studies show that some of the existing inequalities in Latin America are directly related to distributional aspects of the labor markets. See, for example, World Bank (2003b).

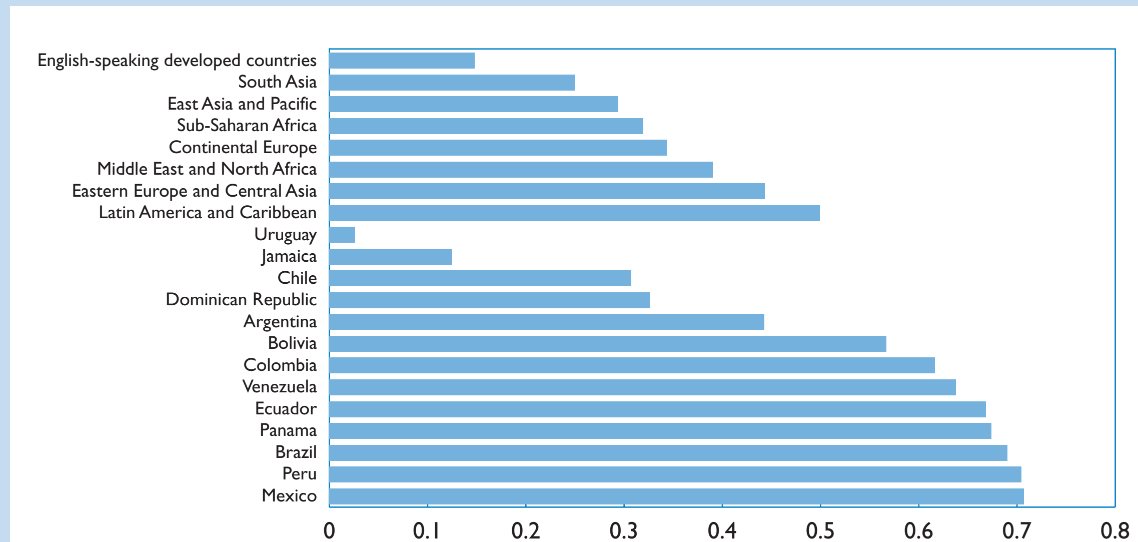
effective policy responses to shocks (Figure 2.15).[31] The lack of progress in institutional reforms in Latin America is now seen as one important reason why the improvements in macroeconomic and financial policies were not sustained throughout the period.

The widespread restoration of democracy in the region during the 1980s was a major achievement, but did not translate into substantial progress in strengthening governance (Figure 2.16). Democratic accountability increased progressively, but most countries in the region continued to suffer from a "crisis of representation," reflecting a combination of frustration with political institutions and low confidence in politicians.[32] National legislatures in Latin America were generally seen as fragmented and ineffective. The absence of mechanisms to manage conflict and build consensus hindered policy implementation and undermined credibility, as was vividly demonstrated in Argentina and Venezuela in 2002–2003. Moreover, some groups were able to capture the political process for their own benefit, skewing the distribution of the benefits of reforms. This exacerbated income inequality, with episodes of political violence and illegal activities increasing.

[31]For recent evidence on the importance of strong governance and institutions in fostering sustained growth, see IMF (2003); Rodrik, Subramanian, and Trebbi (2002); Kaufmann and Kraay (2002); Hall and Jones (1999); and Rodrik (1999). Institutions are found to be important because of their role in determining transaction costs and facilitating market activity; supporting structural reforms; and promoting incentives for productive activities, such as the accumulation of skills or the development of new goods, rather than redistributive activity, such as rent seeking, corruption, or theft.

[32]Dominguez (1997).

International Comparison: Index of Labor Market Rigidity
(0 = low, 1 = high)[1]



Source: Botero and others (2003).
[1]The higher the index, the higher is the level of labor market rigidities.

by large groups of society. Unemployment remains a major challenge for the region—for example, a 2001 Latinobarometer survey revealed that unemployment is considered to be the number one economic problem in Latin America, ahead of corruption and poverty.[3]

[3]See Latinobarometer (2001).

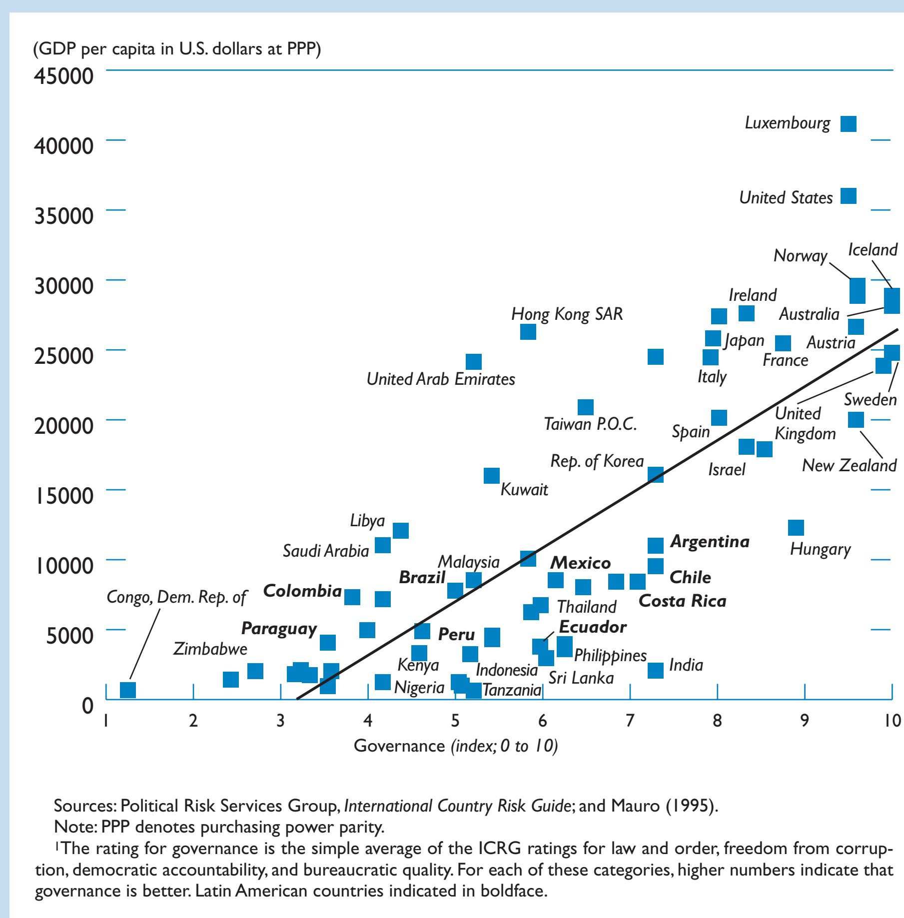
Latin America also lagged in the area of government effectiveness, reflecting to some extent the low accountability of government agencies in a number of countries—although institutions in Uruguay, Chile, and Costa Rica are notable exceptions. These weaknesses have limited and, in some cases, distorted the effects of reforms. For example, poor control over the spending of subnational entities severely affected the efficiency gains expected from decentralization.

The rule of law in Latin America is relatively weak and has deteriorated in recent years to such an extent that some of its countries' levels of compliance are among the lowest in the world, reflecting in many cases underground and drug-related activity (Figure 2.17). This has imposed high security costs on formal economic activity in several countries. Moreover, economic crises have led to a general deterioration in public safety. Judicial systems are often weak and highly politicized, which undermines confidence in property rights, hampers the introduction of new reforms, and increases lending risks.

Corruption remains a formidable problem in the countries of Latin America, as in other emerging market countries (Table 2.6). Several Latin American countries are ranked among the most corrupt in the world, including Bolivia and Ecuador. A notable exception is Chile, which ranks above the OECD average.

In addition to these shortcomings in governance and in protecting property rights, countries' incentive structures have further impaired institutional environment for business activity. Extensive bureaucracy has led to an excessive and uncertain regulatory environment and, together with weak enforcement of the rule of law and corruption, has discouraged both domestic and foreign private investment. A weak institutional environment for business activity is a common prob-

Figure 2.15. International Comparison: Per Capita Income and Governance,[1] 2000



Sources: Political Risk Services Group, *International Country Risk Guide*; and Mauro (1995).
Note: PPP denotes purchasing power parity.
[1]The rating for governance is the simple average of the ICRG ratings for law and order, freedom from corruption, democratic accountability, and bureaucratic quality. For each of these categories, higher numbers indicate that governance is better. Latin American countries indicated in boldface.

lem in many developing and emerging market countries, including those in many parts of Latin America, with cumbersome regulations on key aspects of business activity—for example, starting and closing a business, managing a workforce, enforcing contracts, and getting credit (Box 2.2).

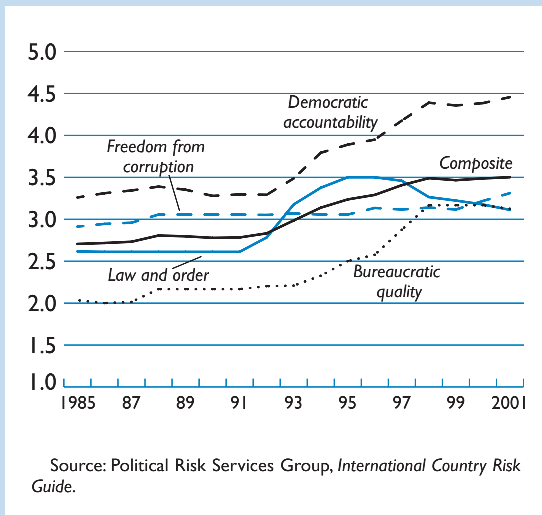
Weaknesses in Macroeconomic Policy Frameworks

The macroeconomic policy agendas in the early 1990s aimed at reversing the legacy of hyperinflation, state intervention in economic policy, and import substitution by emphasizing fiscal and monetary discipline, financial strengthening, and greater openness to the world. These policy frameworks suffered, however, from inconsistencies and imbalances in their implementation and sequencing, and from the lack of strong institutions to ensure their sustainability. Early successes with reforms may have led to complacency about longer-term payoffs, and implementation was not systematic and sustained. Ultimately, reforms were overwhelmed by repeated financial crises and rising social discontent.

Fiscal Reforms and Privatization

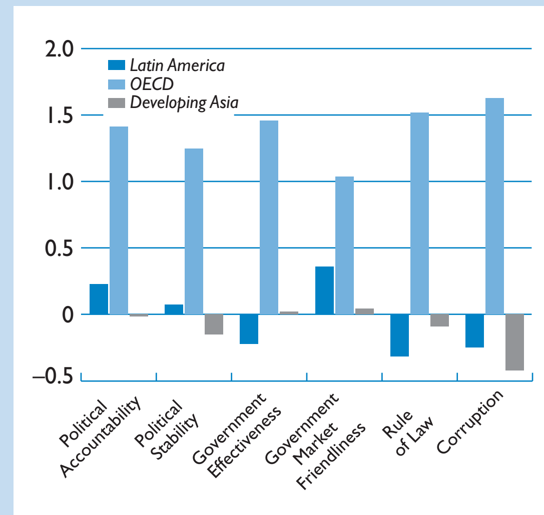
It was generally recognized that the success of stabilization programs rested on restoring fiscal discipline. In practice, however, political economy considerations and complacency during the early recoveries caused fiscal positions to weaken—instead of strengthen—in most countries during the 1990s, as is discussed in Section III. Most importantly, the growth period of the early 1990s was not used to build surpluses and develop countercyclical policies

Figure 2.16. Latin America: Governance Ratings, 1985–2001



Source: Political Risk Services Group, *International Country Risk Guide.*

Figure 2.17. International Comparison: Governance Indicators,[1] 2001



Source: Kaufmann, Kraay, and Zoido-Lobaton (2002).

[1]Governance indicators are measured in units ranging from –2.5 to 2.5 with higher values corresponding to better governance outcomes. OECD denotes the member countries of the Organization for Economic Cooperation and Development.

(except in Chile). Instead, new imbalances quickly developed, as spending commitments (including those of subnational governments in some countries) outstripped revenue efforts; privatization receipts were not used to pay down debt or anchor improved social benefits; and quasi-fiscal deficits were allowed to emerge. Institutions for revenue collection and expenditure management remained weak. Privatization programs (emphasized in Bolivia, Brazil, and Argentina) were generally successful in securing sustained improvements in service, but their implementation emphasized short-term revenue maximization and—particularly for utilities—sometimes proceeded ahead of the improvements in the regulatory framework needed to ensure adequate competition.[33]

Monetary and Exchange Rate Policies

The adoption of exchange rate-based stabilization plans in many countries initially succeeded in bringing inflation down quickly and generating growth. In the absence of the necessary supporting policies, however, new vulnerabilities built up, including highly dollarized balance sheets, overvalued exchange rates, and excessive indebtedness. As is discussed in detail in Section IV, the eventual breakdown of these plans—which lacked viable exit strategies—in a context of highly dollarized or indebted balance

Table 2.6. International Comparison: Corruption Perception Index

(0 = most corrupt; 10 = least corrupt)

	2001
Latin America average	3.7
Chile	7.5
Brazil	4.0
Colombia	3.8
Mexico	3.7
Argentina	3.5
Venezuela	2.8
Nicaragua	2.4
Ecuador	2.3
Bolivia	2.0
Other emerging markets	4.3
OECD	7.2

Source: Transparency International.

Note: OECD denotes the member countries of the Organization for Economic Cooperation and Development.

[33]The extent of privatization has varied considerably among countries, with Bolivia, Brazil, and Argentina having undertaken the most aggressive programs. For the region, more than half the privatizations (measured by value) have taken place in the infrastructure sector, with another 10 percent in the banking sector.

Box 2.2. Latin America: Impediments to Business Activity and Growth

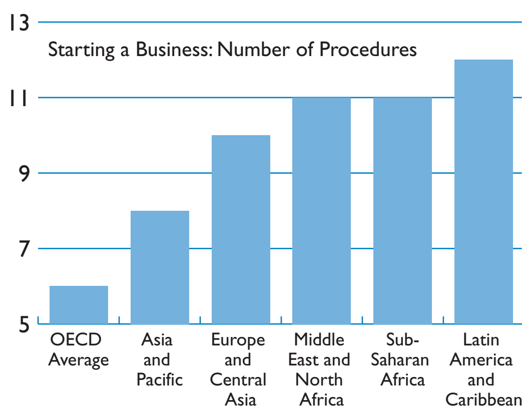
Empirical studies on cross-country growth point to the strong role of the institutional environment—and, specifically, the legal and other factors that affect private markets—in determining growth outcomes.[1] In this context, Latin America has long been known as a region with a relatively weak and inefficient legal framework for economic activity, and a burdensome regulatory environment for business. These problems have tended to stifle entrepreneurship and risk taking and discourage private investment. They have also discouraged participation in the formal, as opposed to the informal, sector of the economy, which, in turn, has reduced the fiscal revenues from taxation. Finally, the large informal sectors in Latin America indicate that a substantial share of business activity and the labor force operates with little or no legal status or regulatory oversight.[2]

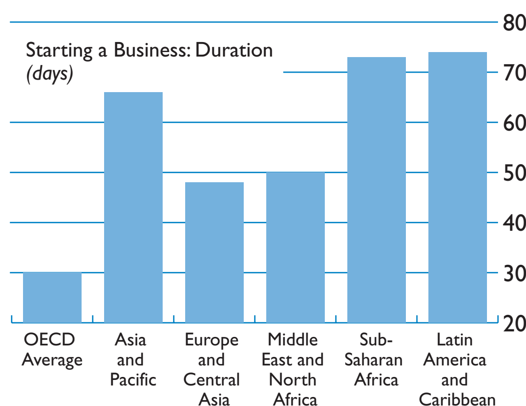
The importance of impediments to business activity in Latin American relative to those in other regions is illustrated in the following figures. The indicators describe the degree of difficulty in opening a business, the inflexibility of labor market laws, and the complexity of enforcing contracts. On all of these measures, Latin America ranks worst out of the six regions shown using data for 2003. The continuing poor performance of the region underscores the failure of reform programs in the 1990s to effectively improve the institutional environment for business activity and helps to explain why strong economic growth was not sustained beyond the initial stages of such programs.

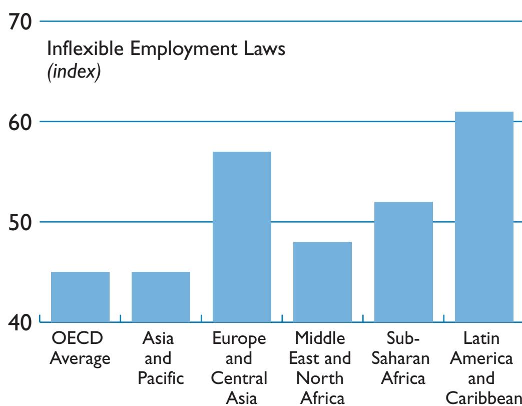
[1]Barro and Sala-ì-Martin (2004), Chapter 12. Further details are also contained in World Bank (2004).

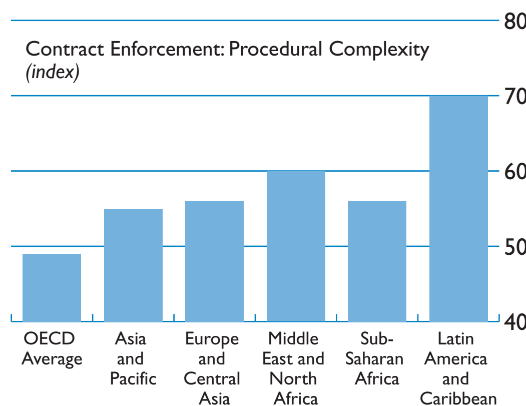
[2]The situation in Argentina is described in detail in World Bank (2003a).

Impediments to Business Activity









Source: World Bank, Doing Business database, available on the web at *rru.worldbank.org/doingbusiness*.
Note: OECD denotes the member countries of the Organization for Economic Cooperation and Development.

sheets created considerable economic and social instability, although the resulting inflation reductions have proved to be enduring.

Financial Reforms

Reforms in the financial sector during the first half of the 1990s focused on liberalization, as bank reserve ratios were reduced and curbs on interest rates were eliminated. Undertaking financial liberalization and capital market opening (including the growth of offshore centers, especially in Central America) without having effectively strengthened supervision and regulation (including of cross-border flows), however, resulted in undue risk taking by institutions in a deregulated environment, amplifying the impact of financial shocks. Overall, financial intermediation remained relatively limited in Latin America, especially for the small- and medium-sized enterprise sector, and contributed to growing inequality in access to financial assets. In addition, informal dollarization in several countries created balance-sheet mismatches and hidden vulnerabilities. These issues are discussed further in Sections V and VI.

External Policies

Trade liberalization was generally an area of considerable progress during the early 1990s. Average tariff rates in Latin America dropped to around 10 percent from nearly 50 percent in the mid-1980s, with Bolivia, Chile, Uruguay, and Peru having the most efficient tariff structures by the end of the 1990s. Trade openness remained quite low, however, while capital market opening proceeded much more rapidly, creating another set of imbalances. The vulnerabilities created by the surge in external capital flows in the 1990s and the lack of progress in trade opening are reviewed in Section VII.

Conclusion

The reform programs of the 1990s brought low inflation and an initial period of financial stability and economic growth. Stability and growth were both eventually undermined, however, by interrelated factors: external shocks, domestic vulnerabilities, and reform programs that did not go far enough in some key areas. The degree of fiscal prudence needed to sustain the rest of the macroeconomic policy framework was not generally realized. In combination, these factors set the stage for financial crises that had severe repercussions on growth, social indicators, and financial stability.

Underlying the disappointing results of the reform programs was a failure to build more robust institutions and governance structures that would have underpinned sustained, sound economic policies. Instead, policy credibility became excessively reliant on more fragile foundations, such as adherence to rigid exchange rate regimes. In the absence of institutional reforms that would have provided the policy flexibility needed to support these regimes, confidence faltered and the policy framework as a whole was undermined. Succeeding sections will elaborate on the experience of the 1990s in the key macroeconomic areas and explain how the region is moving ahead with absorbing and distilling the lessons from this period and developing a renewed commitment to entrenching a robust policy framework for sustained growth and reduced poverty over the medium term.

References

Barro, Robert J., and Xavier Sala-ì-Martin, 2004, *Economic Growth* (Cambridge, Massachusetts: MIT Press).

Behrman, Jere, Nancy Birdsall, and Miguel Székely, 2001, "Pobreza, Desigualdad, y Liberalización Comercial y Financiera en América Latina," in *Liberalización, Desigualdad y Pobreza: América Latina y el Caribe en los 90s,* ed. by Enrique Ganuza, Ricardo Paes de Barrois, Lance Taylor, and Rob Vos (Buenos Aires: United Nations Development Program and Universitaria de Buenos Aires).

Belaisch, Agnès, 2003, "Exchange Rate Pass-Through in Brazil," IMF Working Paper 03/141 (Washington: International Monetary Fund).

Benabou, R., 1996, "Inequality and Growth," in *NBER Macroeconomics Annual 1996,* ed. by Ben S. Bernanke and Julio J. Rotemberg (Cambridge, Massachusetts: MIT Press), pp. 11–74.

Berry, Albert, 1998, *Confronting the Income Distribution Threat in Latin America: Poverty, Economic Reforms, and Income Distribution in Latin America* (Boulder, Colorado: Lynne Rienner).

Beyer, Harald, and Rodrigo Vergara, 2002, "Productivity and Economic Growth: The Case of Chile," in *Economic Growth: Sources, Trends, and Cycles*, ed. by Norman Loayza and Raimundo Soto (Santiago, Chile: Central Bank of Chile).

Birdsall, Nancy, and Miguel Székely, 2003, "Bootstraps, not Band-Aids: Poverty, Equity and Social Policy," in *After the Washington Consensus,* ed. by Pedro-Pablo Kuczynski and John Williamson (Washington: Institute for International Economics), pp. 49–73.

Botero, Juan, and others, 2003, "The Regulation of Labor," NBER Working Paper No. 9756 (Cambridge, Massachusetts: National Bureau of Economic Research).

Brazil, Ministry of Finance, 2003, *Economic Policy and Structural Reforms* (Brasilia). Also available on the Web at *http://www.fazenda.gov.br*.

Calvo, Guillermo, Leonardo Leiderman, and Carmen Reinhart, 1992, "Capital Inflows and Real Exchange Rate Appreciation in Latin America: The Role of

External Factors," IMF Working Paper 92/62 (Washington: International Monetary Fund).

Calvo, Guillermo, and Carmen Reinhart, 1999, "Capital Flow Reversals, the Exchange Rate Debate, and Dollarization," *Finance & Development*, Vol. 36 (September), pp. 13–15.

Carstens, Agustín, and Alejandro Werner, 1999, "Mexico's Monetary Policy Framework under a Floating Exchange Rate Regime," Serie Documento de Investigación No. 9905 (Mexico City: Banco de Mexico).

de Ferranti, David, Guillermo Perry, Indermit Gill, and Luis Servén, 2000, *Securing Our Future in a Global Economy* (Washington: World Bank).

Deininger, Klaus, and Lyn Squire, 1996, "A New Data Set Measuring Income Inequality," *World Bank Economic Review*, Vol. 10, No. 3, pp. 56–91.

———, 1998, "New Ways of Looking at Old Issues: Inequality and Growth," *Journal of Development Economics*, Vol. 57 (December) pp. 259–87.

Dominguez, Jorge, 1997, "Latin America's Crisis of Representation," *Foreign Affairs*, Vol. 76 (January–February), pp. 100–13.

Easterly, William, Norman Loayza, and Peter Montiel, 1997, "Has Latin America's Post-Reform Growth Been Disappointing?" *Journal of International Economics*, Vol. 43 (November), pp. 287–311.

Economic Commission for Latin America and the Caribbean (ECLAC), 1997, *The Equity Gap: Latin America, the Caribbean, and the Social Summit* (Santiago, Chile: United Nations).

———, 2001, *Social Panorama of Latin America, 2000–2001* (Santiago, Chile: United Nations).

———, 2002, *Social Panorama of Latin America, 2001–2002* (Santiago, Chile: United Nations).

———, 2003, *Social Panorama of Latin America, 2002–2003* (Santiago, Chile: United Nations).

Escaith, Hubert, and Samuel Morley, 2000, "The Impact of Structural Reforms on Growth in Latin America and the Caribbean: An Empirical Investigation," Economic Development Division, ECLAC (Santiago, Chile: United Nations).

Fernandez-Arias, Eduardo, and Peter Montiel, 1997, "Reform and Growth in Latin America: All Pain, No Gain?" *Staff Papers*, International Monetary Fund, Vol. 48, No. 3, pp. 522–46.

Fernandez-Arias, Eduardo, and Ugo Panizza, 2001, "Capital Flows to Latin America: New Issues and Old Concerns," paper presented at the Conference on Domestic Finance and Global Capital in Latin America, Federal Reserve Bank of Atlanta, November 1–2.

Fischer, Stanley, 2001, "The International Financial System: Crises and Reform," Robbins Lecture, London School of Economics, October 29–31.

Forbes, Kristin, 2003, "A Reassessment of the Relationship Between Inequality and Growth," *American Economic Review*, Vol. 90 (November), pp. 869–87.

Foxley, Alejandro, 2003, "Development Lessons of the 1990s: Chile" (unpublished: Santiago, Chile).

Hall, Robert, and Charles Jones, 1999, "Why Do Some Countries Produce So Much More Output per Worker Than Others?" *Quarterly Journal of Economics*, Vol. 114 (February), pp. 83–116.

Inter-American Development Bank (IADB), 1997, *Latin America After a Decade of Reform* (Washington).

———, 2004, *Good Jobs Wanted: Labor Markets in Latin America* (Washington).

International Monetary Fund (IMF), 2002, "Debt Crises: What's Different About Latin America?" Chapter II in *World Economic Outlook: A Survey by the Staff of the International Monetary Fund*, *April*, World Economic and Financial Surveys (Washington), pp. 61–74.

———, 2003, "Growth and Institutions," Chapter III in *World Economic Outlook: A Survey by the Staff of the International Monetary Fund*, *April*, World Economic and Financial Surveys (Washington), pp. 95–128.

Kaufmann, Daniel, and Aart Kraay, 2002, "Growth Without Governance," Governance, Corruption and Legal Reform Working Paper No. 2928 (Cambridge, Massachusetts: Harvard University).

———, and Pablo Zoido-Lobatón, 2002, "Governance Matters II: Updated Indicators for 2000–01," World Bank Policy Research Department Working Paper No. 2772 (Washington: World Bank).

Kochhar, Kalpana, Timothy Lane, and Miguel Savastano, 2003, "Macroeconomic Consequences of a Financial Crisis," in *Managing Financial Crises: Recent Experience and Lessons for Latin America*, ed. by Charles Collyns and G. Russell Kincaid (Washington: International Monetary Fund), pp. 26–33.

Latinobarometer, 2001, *Latin American Public Opinion Survey* (Santiago, Chile: Cooperación Latinobarómetro).

Loayza, Norman, Pablo Fajnzylber, and César Calderón, 2003, "Economic Growth in Latin America and the Caribbean: Stylized Facts, Explanations, and Forecasts," IMF Research Department Paper No. 2003–13 (Washington: International Monetary Fund).

Lora, Eduardo, 2001, "Structural Reforms in Latin America: What Has Been Reformed and How to Measure It," IADB Research Department Working Paper No. 466 (Washington: Inter-American Development Bank).

———, and F. Barrera, 1997, "Una década de reformas estructurales en América Latina: El crecimiento, la productividad y la inversión, ya no son como antes," IADB Research Department Working Paper No. 350 (Washington: Inter-American Development Bank).

Lora, Eduardo, and Ugo Panizza, 2002, "Structural Reforms in Latin America Under Scrutiny," IADB Research Department Working Paper No. 470 (Washington: Inter-American Development Bank).

Lustig, Nora, 1995, *Coping with Austerity: Poverty and Inequality in Latin America* (Washington: Brookings Institution).

———, and Omar Arias, 2000, "Poverty Reduction," *Finance & Development*, Vol. 37 (March) pp. 30–33.

Mauro, Paolo, 1995, "Corruption and Growth," *Quarterly Journal of Economics*, Vol. 110 (August), pp. 681–712.

Menezes-Filho, Naércio, 2001, "Educação e Desigualdade," in *Microeconomia e Sociedade na Brasil,* ed. by M. Lisboa and N. Menezes-Filho (São Paulo: Editoria Contracapa).

Mihaljek, Dubravko, and Marc Klau, 2001, "A Note on the Pass-through from Exchange Rate and Foreign Price

Changes to Inflation in Selected Emerging Market Economies," in "Modelling Aspects of the Inflation Process and the Monetary Transmission Mechanism in Emerging Market Countries," BIS Paper No. 8 (Basel: Bank for International Settlements), pp. 69–81.

Morley, Samuel, 2001, *The Income Distribution Problem in Latin America and the Caribbean* (Santiago, Chile: United Nations).

Navia, Patricio, and Andrés Velasco, 2003, "The Politics of Second-Generation Reforms," in *After the Washington Consensus*, ed. by Pedro-Pablo Kuczynski and John Williamson (Washington: Institute for International Economics).

Ocampo, José Antonio, 2004, "Beyond the Washington Consensus: An ECLAC Perspective" (New York: United Nations, Economic Commission for Latin America and the Caribbean).

Perotti, R., 1996, "Growth, Income Distribution and Democracy," *Journal of Economic Growth*, Vol. 1 (June), pp. 149–87.

Pfeffermann, Guy, 2002, "Why Latin America Stays Trapped," *The Globalist*, November 21.

Rodrik, Dani, 1999, "Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses," *Journal of Economic Growth*, Vol. 4 (December), pp. 385–412.

———, Arvind Subramanian, and Francesco Trebbi, 2002, "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development," NBER Working Paper No. 9305 (Cambridge, Massachusetts: National Bureau of Economic Research).

Saavendra, Jaime, 2003, "Labor Markets During the 1990s," in *After the Washington Consensus,* ed. by Pedro-Pablo Kuczynski and John Williamson (Washington: Institute for International Economics).

Stallings, Barbara, and Wilson Peres, 2000, *Growth, Employment, and Equity: The Impact of Economic Reforms in Latin America and the Caribbean* (Washington: Brookings Institution).

Székely, Miguel, 2001, "The 1990s in Latin America: Another Decade of Persistent Inequality, but with Somewhat Lower Poverty," IADB Working Paper No. 454 (Washington: Inter-American Development Bank).

———, Nora Lustig, Martin Cumpa, and José Mejia-Guerra, 2000, "Do We Know How Much Poverty There Is?" IADB Working Paper No. 437 (Washington: Inter-American Development Bank).

United Nations Development Program (UNDP), 2003, *Human Development Report 2003* (New York: Oxford University Press).

World Bank, 2000, *World Development Report 2002*, *Building Institutions for Markets* (New York: Oxford University Press).

———, 2001, *World Development Report 2000/2001: Attacking Poverty* (Washington).

———, 2003a, "Argentina's Challenge: Growth, Social Inclusion and Governance," Policy Note (Washington).

———, 2003b, *Inequality in Latin America and the Caribbean: Breaking with History?* (Washington).

———, 2003c, *World Development Indicators* (Washington).

———, 2004, *Doing Business in 2004*: *Understanding Regulation* (Washington).