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Latin America's Difficult Search for Good Governance. A Review of Recent Literature

Inquiries about the causes why Latin America has fallen behind in terms of economic growth and development compared to its great neighbor in the North have a long tradition (Haber 1997). One factor of explanation that has been put forth more prominently in recent debates is institutional weakness or the lack of good governance (Mols and Öhlschläger 2003). Studies about what constitutes “good governance” in combination with ideas for institutional reform will probably be a main focus of discussion in the coming years (Abed and Gupta 2002).

Traditionally, almost all countries of Latin America have exhibited a tendency to veer among various economic and political models with most of them leaning to state interventionism and authoritarian forms of government (Frieden et al. 2000). As one of the consequences, economic structures are highly uneven. It is a persistent characteristic of most Latin American economies that company size is limited to either relatively small or relatively large enterprises with the big companies usually held by the State or at least sponsored or subsidized by government. The lack of medium sized companies – in other places well known for their dynamism – contrasts sharply with the many micro enterprises in Latin America's economic landscape. While the tiny companies face many obstacles to growth, the large enterprises tend to be inefficient and reluctant to innovation due to their monopolistic or quasi-monopolistic position and because of their close ties with government which usually implies easy access to subsidies and privileged financing (Fairbanks et al. 1997).

One of the most remarkable recent books in the context of institutions and governance is *The Mystery of Capital* by the Peruvian author Hernando de Soto. Observing that it is not the entrepreneurial spirit which would be absent in Latin America and in other developing countries, nor that the “poor” would have nothing, de Soto (2001)¹ points out that in these countries there is actually a considerable accumulation of capital, when one calculates the worth of the informal real estate possessions. It is not capital per se that is

¹ This review follows the Portuguese edition of de Soto's book (Soto 2001). Like his earlier book *El otro sendero* (1986), *El misterio del capital* (Lima: El Comercio 2000) has appeared in various languages including English: *The Mystery of Capital* (New York: Basic Books 2000), German: *Freiheit für das Kapital* (Berlin: Rowohlt 2002), French: *Le Mystère du Capital* (Paris: Nouveaux Horizons 2002), and Italian: *Il Mistero del Capitale* (Milano: Garzanti 2001) along with editions in Dutch, Chinese, Polish and Arabic.

lacking, but rather the access to the mechanisms, which would allow the poor to legally use their assets as a collateral and thereby obtain financial funds, which then could be applied to commercial purposes. As de Soto explains (p. 125), in the Western countries – his major point of reference being the United States – each and every piece of property and all buildings are formally registered and continuously updated. Every piece of land has a legal ownership and the use of property in order to finance commercial projects and durable goods is a common way of life in the advanced capitalist countries.

Property, particularly legal titles to land and buildings, works like a generator, so de Soto (p. 57), allowing the owners to obtain credits and finance projects. In contrast, a large part of property lies idle in almost every of the low-income countries due to the absence of formal titles. Like under communism, possessions do exist, but their economic value cannot be brought to light and its potential as an agent of commercial activity remains blocked. De Soto lists various functions of real estate that emerge when property rights are legally established and trade becomes free (p. 63): a formal ownership of property constitutes the creation of additional value because the legal title is like a key to obtain financial resources. Property serves as the door through which people enter the world of a unified legal system, and the existence of a functioning systematic structure of property rights augments integration and contributes directly to social inclusion.

Given that “factual property” is held extensively by many of those excluded under the present system, the effect on society could be decisive when a functioning system of reliable property rights could be established. Under the current “extra-legal system” (p. 103), large parts of the population feel permanently excluded. Property rights on real estate would provide the basis for creating civic virtues like responsibility and respect of law and foster social inclusion.

A legal system of property rights allows the transformation of a specific physical asset into a divisible financial asset. This way, property can be kept as a unit and continue to provide its personal or commercial utility as a home or as a working place. Making the object financially divisible or fungible turns it into an agent for generating financial capital and thus provides the basis for the expansion of commercial activities.

De Soto calculates (p. 45) that the value of “dead capital” in Peru is eight times larger than all private savings at commercial banks and two times more than the total value of the companies listed at the national stock exchange. As to the value of dead capital that is held by the so-called poor in the Third World and the former Communist bloc countries, de Soto – who conducts intensive world-wide research of these issues through his *Instituto de Libertad y Democracia* (ILD) – provides an estimation of 9.3 trillion US dollars (Table 2.1)².

De Soto (p. 221) also reports of a practical experiment that was conducted by his research team in Lima. The investigation demonstrated that it took more than 300 full working days as well as legal fees amounting to 32 times the minimum wage to come out of the “extra-legal system” and have a small shop dedicated to sewing work become fully legalized. In order to legalize a small property in a slum area of Lima, 728 individual bureaucratic acts had to be mastered involving eleven different government agencies.

² See also Hernando de Soto’s article “The Mystery of Capital”. In: *Finance and Development*, vol. 38, 1, 2001.

Although somewhat repetitive and lacking a more profound theoretical foundation, de Soto's *Mystery of Capital* is a highly original and informative book, which deserves much attention. The book is written in a clear accessible style, full of practical examples and rich in historical evidence drawn from many parts of the world and particularly from the process of establishing formal property titles in the United States during the 18th and 19th Century in comparison to the current situation in Peru, Haiti and the Philippines.

In contrast to de Soto, one looks in vain for the term "capital" in the last book by Rudi Dornbusch: *Keys to Prosperity. Free Markets, Sound Money, and a Bit of Luck* which is all about stabilization (Dornbusch 2000). Its author may be characterized as one of the most prominent representatives of what economists call the "neoclassical synthesis". During his career, Dornbusch has contributed in a fertile way both to economic theory and, as an outspoken commentator, to rethink many issues of economic policy, particularly as they showed up in Mexico, Brazil, and Argentina in the past decades. Frequently a harsh critic of what he observed, Dornbusch recently expressed more confidence that the Latin American countries would take the right turn by adopting the kind of macroeconomic policies that he favored and which are expressed in the subtitle of the book: free markets and sound money.

The book under review is a collection of articles and small papers that were slightly revised and updated. The analyses in *Keys to Prosperity* cover many aspects that are related to economic policies in Latin America. The German-born author who had been a professor at the economics department of the *Massachusetts Institute of Technology* (MIT) until his early death in 2002, draws on his profound knowledge of economic theory and of open economy macroeconomics in order to offer a conceptual framework and some models on how to address the major economic policy issues regarding money, exchange rates and international trade. Besides various intercepted analyses about the economic situation in Latin America in the other parts of the text, the book includes a whole chapter specifically addressed to Latin America (chapter 6) that offers a concise analysis in the light of modern economics.

Based on a theoretical model, which he calls "The Latin Triangle", Dornbusch studies the macroeconomic policies of Chile, Mexico, and Brazil with a special emphasis on the exchange rate, prices, and employment. This model, which should be accessible to those with a basic training in economics, provides a key for analyzing stabilization problems seen from the perspective of modern open economy macroeconomics and puts overvalued currencies at the forefront of precursors to financial crises.

Both, the institutional approach of de Soto and the creative application of modern economic models as done by Dornbusch, contrast sharply with the mainstream that prevails in Latin America with its mixture between Marxism and Keynesianism including a dose of *Cepalism* (cf. Rego 2001 and Bielschowsky 2000). It is only recently that more attention is being paid to institutional economics (Haber 2000) while studies in the tradition of classical liberalism or in the mold of constitutional and ordoliberalism (*Ordnungspolitik*) are still rare, although here, too, interest is awakening.

One of the foremost representatives of the traditional way of economic thinking in Latin America is Celso Furtado. Among the Latin American economists who were directly involved in politics, Celso Furtado is probably the most outstanding figure. His political activities have been accompanied by a vast intellectual production making him one of the most renowned political economists in Brazil and in other parts of Latin

America and beyond. His *A Formação Econômica do Brasil* has become a classic³. Furtado held high positions in government and in international organizations. He was a founding member of CEPAL – The Economic Commission on Latin America – and served as head of its planning department where he laid the foundation of the Cepalist economic development model. In his homeland, Furtado was Minister of Planification under the João Goulart government; he helped to institute and direct the National Development Bank of Brazil, and later, returning from exile, he became Minister of Culture.

Celso Furtado's new collection of articles *O Longo Amanhecer. Reflexões sobre a Formação do Brasil* (Furtado 1999) offers an excellent introduction into the economic doctrine known as “desenvolvimentismo” and provides a condensed version of the Cepalist development model that has guided development policy in many Latin American countries since the 1950s. Furtado and his school continue to exert a strong influence up to the present days. The impact of the Cepalist development model is so common that frequently even those in contemporary Latin America who seem to oppose it, propose little more than just another version of this model without discarding the basic theoretical assumptions and principles as they were laid down by Furtado.

Among the most interesting chapters of Celso Furtado's booklet – which covers such diverse issues as “a busca de novo horizonte utópico” (pp. 13-26) or the “Nova concepção do federalismo” and the “Formação cultural do Brasil” (pp. 45-56) – is his message to young economists: “Mensagem aos jovens economistas” (pp. 69-102)⁴.

Telling about his experiences as a founding member of CEPAL in 1949, Furtado (1999, p. 69) recalls his early search for the causes of Latin America's “underdevelopment” and the endeavors that were made at this time to present a quantitative picture of Latin America, i.e. to develop a statistical framework in order to provide a basis for development planning. The predominant idea put forth by CEPAL determined that underdevelopment needs reconstruction similar to a situation of a country devastated by war. Drawing from the examples set by France (where Furtado obtained his doctorate in 1948) and from Soviet planning, Furtado and his crew wanted to install a system of large-scale centralized planning combined with aggregate demand management in order to bring about rapid development.

In this regard, Furtado (p. 73) remembers an encounter with Oswaldo Aranha, who was the Minister of Finance during the crisis period of the 1930s. When Aranha referred to his feelings of guilt he had at that time when he administered the burning of 80 million sacks of coffee, Furtado came to absolve him. This destruction, Furtado explains, which amounted to several times of the Brazilian gross domestic product at that time, must be interpreted as an example of successful active demand management and this “maior fogueira do mundo” (p. 74) should be seen as a necessary “anti-cyclical” measure. In retrospect, Furtado regards this feat as the decisive step towards making the Brazilian economy less “reflexa” (p. 73) and more autonomous: “Percebi que a política brasileira

³ In 2000 “Formação Econômica do Brasil” was republished as 27th edition in the series “Grandes Nomes do Pensamento Brasileiro” in a popular collection distributed by the Folha de São Paulo.

⁴ Originally a discourse held in 1998 for the students of the *Escola de Economia da Universidade de São Paulo* (USP).

era de tal forma orientada para favorecer os interesses do comércio internacional que não permitia que o país usasse a capacidade produtiva existente, por temor à inflação. A situação era similar à atual: crescimento zero por temor à inflação” (p. 74).

Explaining the process of industrialization in Brazil as it took place in the 1950s and 1960s, Celso Furtado points out that strengthening internal demand and creating employment were the prime goals when designing the projects. This way, Brazil intentionally bought mostly second hand industrial goods from abroad in order to avoid higher productivity which – so Furtado (p. 77) – would have limited the employment impact of the investment.

In hindsight, even Furtado admits some failures of the intended grand-scale economic development planning program pointing to the neglect of taking the financial cost of industrialization properly into account: “A técnica de planejamento que criamos na CEPAL serviu ao governo de Juscelino Kubitschek para fazer o Plano de Metas, o mais importante que o Brasil teve, pois foi a única vez em que o país teve uma política industrial deliberada, racional e ampla. Falhou, porém, no esquema de financiamento, insuficientemente estudado” (p. 79).

But it was not just the lack of giving adequate considerations to the issue of financing the great projects. As it turns out, the very same “technique” could be put to different aims in different hands as it happened with Roberto Campos and the military government. “Roberto Campos, quando foi ministro de Planejamento, seguiu essas mesmas técnicas que nasceram na CEPAL, só que seu plano para o governo militar tinha objetivos sociais distintos” (p. 79).

The disregard for carefully calculating the long-term costs of financing the projects and the explicit inconsideration of productivity and competitiveness aspects along with ignoring monetary stability are probably the worst legacy of the CEPAL-model. The consequences of this development model with its priority for quantitative effects instead of quality improvements and the neglect of competitiveness and productivity still plague many Latin American economies including Brazil. As a result of centralized planning, large bureaucratic bodies were installed that are still in existence and which tend to stifle more than foster economic growth. Inefficient oversight in combination with complex regulatory laws and directives opened the gate for corruption and rent seeking. Neglecting the true long-term financial costs of the program of forced industrialization, the *desenvolvimentistas* laid the foundation for the debt burdens that plague many Latin American economies and curb economic growth and monetary stability up to the present days.

Furtado's collection of articles may serve as an introduction for those who want to know more about the intellectual setting that has dominated development policies in Latin America. For a more profound study, the two-volumes collection of articles *Cinquenta anos de pensamento na CEPAL*, organized by Ricardo Bielschowsky (2000), provides a rich compilation of sources. This reader of CEPAL thinking (originally in Spanish as *Cincuenta años de pensamiento en la Cepal*) offers an excellent way to gain a deeper understanding of this model and its intellectual roots. In this book one can find the classic articles on the import substitution concept by Raúl Prebisch (pp. 69-135, 179-215, and 373-422) along with an article by Maria de Conceição Tavares on “Auge e declínio do processo de substituição de importações no Brasil” (pp. 217-237) followed by another “classic” in this area, Celso Furtado's “Desenvolvimento e subdesenvolvimento” (pp. 239-329).

Studying these articles and some other prominent papers such as Fernando Henrique Cardoso's and Enzo Faletto's paper on "Dependencia" (pp. 495-519) and Osvaldo Sunkel's paper on "Desenvolvimento, subdesenvolvimento, dependência, marginalização e desigualdades espaciais: por um enfoque totalizante" (pp. 521-566), one can see that CEPAL was quite able to develop a fruitful research program; the practical application of these concepts, however, showed poor and sometimes disastrous results.

A study of the various CEPAL documents reveals that development policies in Latin America have progressively deviated from the original goal with the latest CEPAL document in the collection now focusing on Latin America's insertion into the global economy: "América Latina e Caribe: políticas para melhorar a inserção na economia mundial" (pp. 959-971). But while the goals may have changed, the rationalist-constructive framework with its underlying positivist epistemology lives on together with the tradition of searching for outside factors in order to explain the retarded development at home⁵.

While Celso Furtado has never given up his love affair with French planning, even after France itself had abandoned it long ago, Domingo Cavallo, the father of Argentina's failed currency board experiment, became an astute practitioner of what he had learned at Harvard and MIT. Like Furtado and many minor figures, Domingo Cavallo returned from abroad with a seemingly dead proof recipe for economic prosperity. In his *Pasión por crear. Domingo Cavallo en diálogo con Juan Carlos de Pablo*, Cavallo (2001) frankly provides details of his intellectual formation and political career. The extensive interviews follow a strict chronological order and thus allow the reader to observe the formation of Cavallo's thoughts along with his political career path and the events in Argentina.

Originally an expert in statistics with a doctorate from the Universidad Nacional de Córdoba, Argentina, Cavallo came to the United States in 1974 and earned a post-doctorate degree from Harvard in 1977 with a thesis on stagflationary effects of monetary stabilization policies. His political career began in 1981 in the "subsecretaría" of the Ministerio del Interior and as the President of the *Banco Central de Argentina* six months later. Later on he became a "Diputado de la Nación por Córdoba" and Foreign Minister, and finally Minister of the Economy under the Presidency of Menem when he installed the so-called "Plano de Convertibilidad" in April 1991.

What Cavallo had brought home from abroad was more or less the opposite of the lessons, which Furtado had learned. This time the motto was currency and monetary stabilization. According to Cavallo, the currency board actually was "a very simple idea" given that the Argentines had lost almost all trust in their national currency and that they already had adopted the dollar as the prime means for doing business: "El dólar se había transformado en una especie de remedio casero a la inflación, y de hecho los argentinos usábamos alrededor de 24 mil millones de dólares en billetes, mientras que el valor de los australes que todavía circulaban equivalía a sólo 4 mil millones de dólares. La idea, entonces, fue muy simple. Primero, legalizar el uso del dólar, permitir que se lo utilizara, que se registraran los precios en dólares, y sobre todo que se pudiera hacer intermediación financiera en dólares" (p. 163).

⁵ In the meantime, "dependency" has been substituted by "globalization" and by "neoliberalism" as the main "explanatory variables". See Dupas (1999) and Fiori (2002).

A complete dollarization of the economy, however, would have made the government dependent on the supply of a currency, which it could not create at home. Thus, Cavallo came up with the idea to make the national currency convertible and to fix the peso one to one to the dollar with the guarantee that each peso could be exchanged anytime for dollars at this stipulated exchange rate. By creating a currency board regime, the government could issue its own national money. Based on this "Plan de Convertibilidad", the population would accept the national currency in which the government could pay salaries and collect taxes. "Ahí utilizamos el concepto de la Caja de Conversión, que yo conocía por la historia argentina y también porque había leído sobre el tema" (p. 164).

The following chapters offer a lively discussion of the effects of the Plan from Cavallo's perspective and the talk is rich in details that are usually outside of pure economic analysis. Chapter 14: "Ministro de Economía III. Reformas estructurales" (pp. 180-211) deals with the privatization program and the opening of the economy. Accompanied by graphs (p. 193) and documents (Apéndice pp. 279-349) the talk centers on the crossroads among personalities, politics and economics and on what happened in Argentina in the 1990s, a period which began so exuberantly but which ended tragically in 2001 with Argentina's economic and financial collapse.

Cavallo's book may serve as a welcome companion to academic studies such as *La Economía Argentina Hoy. Un análisis riguroso de un país en crisis* edited by Marcelo Lascano (2001). Rich in statistics and with contributions from various authors who prefer an empirical approach, the book offers a well-balanced and informative compilation of the 1990s in Argentina with its ramification to dominant economic models, money, exchange rate, budget, and social problems.

A study of Latin America's currency and monetary problems may also include *Política de tasa de cambio en América Latina*, edited by Carol Wise and Riordan Roett (2001)⁶. This book has – along with an analysis of Argentina's currency board – chapters on the collapse of the Mexican peso, the crisis of the Brazilian money, and the currency crisis in Venezuela. The authors are mainly professors at U.S.-American Universities. They approach the issues mainly from the angle of a political economy perspective, and their emphasis lies on the political aspects of exchange rate regimes. This way, the authors offer a way of access to the complex issues of currency regimes that is also open for the non-economist.

In 2003, the Brookings Institution published a follow-up edition, also organized by Wise and Roett under the title: *Post-Stabilization Politics in Latin America. Competition, Transition, Collapse* (Wise and Roett 2003), which analyzes the effects of the pro-market reforms in countries such as Argentina, Brazil, Chile, Mexico, Peru and Venezuela. Using an approach that combines politics and economics, the volume covers the dominant issues of debate like liberalization, privatization, and deregulation. The contributors include also experts from Latin American countries.

Michael Mussa, currently a senior fellow at the Institute for International Economics in Washington, had served as a director at the research department of the International Monetary Fund (IMF) from 1992 to 2000. He analyzes the collapse of Argentina as seen from Washington. In his *Argentina and the Fund. From Triumph to Tragedy*, Mussa

⁶ For the English version see Wise and Roett (2000).

(2002) somewhat tries to justify why the IMF became to regard Argentina as a showcase for successful economic policy and as an example for other countries. He tries to explain why the IMF committed errors, but finally comes up with the answer that it was the fiscal policy that caused the problems. In Mussa's analysis, the main culprit was the lack of fiscal discipline of Argentina's government, which did not curb public spending. If there was a fault by the IMF, Mussa suggests, it was that the Fund was not tough enough in pressing Argentina towards fiscal restraint.

Some more ironic and sometimes hilarious approaches to Argentina's political culture and the populism, which characterizes also many other nations – and not only or particularly in Latin America – are provided by Aguinis (1988 and 2001) and by Mendoza et al. (2002). These authors offer an essayistic and sometimes satirical portrait of history and current trends, which are not only amusing but also very instructive.

Those who want to study a detailed account of what has been happening in Brazil since the 1970s may turn to *Câmbio, Ouro e Dívida Externa. De Figueiredo a FHC* by Emilio Garofalo Filho (2002). This idiosyncratically composed book, which is one third handbook, one third chronology and one third event-oriented economic and political analysis, follows a strict chronological order beginning in 1979. After a general introduction into the role of gold in colonial Brazil till the end of the twentieth century and a “preâmbulo de uma história de crise cambial: Fatos que antecedem ao governo Figueiredo” (pp. 7-50), the book addresses each of the following years and proves immensely rich in details and documentation and will be a treasure for the researcher of contemporary Brazilian studies in political economy.

Emilio Garofalo Filho was a director for international affairs at the Brazilian central bank; he worked for various domestic and international financial entities along with doing consulting in the area of foreign trade. His book is too burdensome to be read at once. However, it may serve likewise as a handbook and as a book for diversion, because on almost every page there are to be found interesting and quite often amazing details, which usually get neglected by books, which follow a strict academic form. Each of the yearly chapters, beginning in 1979 and 1981 up to the year 2001, provides many highlights as to the interrelationship between economic and political issues, the role of the individual decision makers and the various constraints ranging from purely judicial to highly political considerations. Additionally, the book is very specific in respect to the actions taken by the authorities, and the author is eager to back up his statements by detailed documentation.

For each year, there is a “pasta do ano” which names the President and his economic team and provides information about the exchange rate, inflation, the interest rate, international reserves, and the balance of payment. One may consult foremost chapter 7 (“1982 e 1983: A crise da dívida externa”) or chapter 10 (“1987: A moratória”) in addition to chapter 17 (“O Plano Real”) in order to gain an insight into the events of these crucial years of Brazil's recent economic history.

Unfortunately, Garofalo Filho's style of writing is not very pleasant, sometimes resembling a telegram, packed with minute additional information in each sentence. But one may be willing to live with that given that this book serves more as a source of reference than as a conventional monograph. Facts and circumstances, which are easily forgotten, come to light and help the reader to gain a more profound understanding about otherwise rather technical items such as how politicians and public functionaries try to find the adequate exchange rate.

Brasilien im internationalen Standortwettbewerb. Politische, ökonomische und rechtliche Rahmenbedingungen by Christian Gloger (2003) provides a detailed analysis of the factors that determine Brazil's attraction as a place for foreign investment based on a model that was originally developed by the German Development Policy Institute (DIE). This model tries to identify factors like a functioning political system including macroeconomic and macro-political aspects. The approach becomes more specific when it comes down to matters such as foreign trade, financial mechanisms, and industrial policies.

The book provides solid information on most of these issues supplemented by an annex, which specifies the Brazilian tax system and program of export promotion. This book is both of academic and practical value. It may appeal in its empirical richness both to the academic researcher as well as to potential investors who want to know more about the overall conditions of Brazil as a place for foreign investment.

Bildungspolitik und wirtschaftliches Wachstum in Brasilien by Michael Fritsche (2003) addresses the problems of the Brazilian educational system in terms of its effects on growth and internal efficiency. Aside from the rather rudimentary discussion of the "human capital" issue, and only tentative steps to find convincing criteria for "efficiency" in the educational system, the better parts of the book are to be found in the empirical documentation – necessarily based on governmental statistics – about what is going on in Brazil's educational system.

Fritsche examines the primary school system ("educação básica"), vocational education and training ("educação profissional") and the university system ("educação superior"). The author provides many graphs and tables, which assist a rapid access to the major information. The conclusions are well known: Brazil's public educational system has a low quality in contrast to private education at the primary and secondary level. On the other hand, the public university system is better than the private universities in general. This, however, implies a severe distributional problem. In order to gain access to the public university system, which is almost completely free of charge for the students, the candidate must pass a relatively difficult entrance examination ("vestibular"). This way, almost only those students gain access to the free public university system who have had the privilege of attending the costly private schools or at least possess enough funds in order to attend the expensive preparatory courses ("cursinhos"). This way Brazil's educational system, instead of assisting to achieve a more equal income distribution, exerts the opposite effect and in fact may be one of the major reasons why the distributional structure has remained so unequal in Brazil.

The dramatic changes that have been going on in Brazil's educational system may attract further studies that concentrate on the educational revolution due to the rapid expansion of private higher education. While the public universities are suffering from a severe lack of funding and must cut down in research, many private universities are expanding their "pós-graduação" programs and consequently enhance their research facilities. In terms of economic efficiency and in terms of providing an education, which is more in tune with the job market, private universities have markedly increased their attractiveness and have surpassed the public system in student numbers.

With the Free Trade Area of the Americas (FTAA) on its way after the recent summit in Miami in November 2003, the issues of regional trade agreements will remain in the

spotlight in the coming years. Latin America appears to be set on taking the path towards a pan-American integration while at the same time, various bilateral free trade agreements continue to be negotiated with the European Union and new initiatives call for a re-launch of the Mercosur project. Ricardo Caldas and Christoph Ernst address these issues in their *ALCA, APEC, NAFTA e União Européia. Cenários para o Mercosul no Século XXI* (Caldas and Ernst 2003). This is a solidly written and well documented book that provides a descriptive-analytical presentation of the major trading blocs with the intent to derive strategies for Latin American integration policies. The text serves well for class room use and as a primer on regional integration with an emphasis on Latin America.

Triches (2003) analyzes the Mercosur project in the light of the experiences of the European Monetary Union. In this carefully prepared study, the author examines various types of currency regimes and strategies of forming an economic and monetary union. The book addresses the Mercosur's institutional setting and examines the role of a more deeply integrated economic area among the Southern Cone countries within the pan-American free trade area. The approach is both analytical with several economic models and empirical and covers a wide scope of viewpoints with currency and stabilization issues at the forefront.

A study of Latin America, even if it is concentrated on political economy, may well include two more books: *Las raíces torcidas de América Latina* by Carlos Alberto Montaner (2001) and Eduardo Devés Valdés' (2000) book *Del Ariel de Rodó a la CEPAL (1900-1950)*.

Carlos Alberto Montaner was born in Cuba and currently lives in Spain. His earlier publications include the *Manual del perfecto idiota latinoamericano* (together with Plinio Apuleyo Mendoza and Álvaro Vargas Llosa). In his new book, Montaner (2001) tries to discover the "distorted roots" of Latin America in terms of the "sospecha de legitimidad original: fraudes, sofismas y otras trampas teológicas y jurídicas" (chapter 1), the role of "los negros en una sociedad tenazmente racista" (chapter 3) or in "la economía que nació torcida" (chapter 5).

Based on an extensive historical bibliography, Montaner searches for the historical roots of Latin America's problems and finds them at many places. As to the distorted roots of the university system, Montaner documents the on-going tradition of the scholastic "*verba, non res*" with its adherence to authority and the practice to treat problems by dispute rather than by constructive action. Even the disputes, however, are unimaginative and more "una especie de esgrima verbal prefabricada, en la que todo se argumenta mecánicamente utilizando reglas invariables" (p. 133). Like here, Montaner points at the roots of many other tendencies that seem to die hard and form an obstacle to modernization.

Eduardo Devés Valdés' book *Del Ariel de Rodó a la CEPAL (1900-1950)* may serve as an appropriate supplement to Montaner. Devés Valdés (2000) determines "*arielism*" along with positivism and socialism-anarchism as the major intellectual posts of "el pensamiento latinoamericano en el siglo XX", representing ideological streams which almost automatically lead to caudillismo and have made Latin America the field of an on-going battle between modernization and a search for identity based on tradition. Devés Valdés (p. 287) sees this basic conflict at work up to the CEPAL program with its discussion of industrialization (modernization) within the context of a strict distinction

between “centro” (the other) and “periferia” (identity) and the role of the State (socialism).

Optimistic analyses and outlooks – as they appear less justified now than towards the end of the 1990s – are provided in *Latin America Transformed. Globalization and Modernity*, edited by Robert N. Gwynne and Cristobal Kay (1999). The authors in this reader follow a multidisciplinary approach and discover various tendencies of a transformation to modernity with tendencies towards stable democracy and more efficient economic structures. This book may serve as an introductory reader and as a companion to the new edition of *Modern Latin America*. Skidmore and Smith (2000) have prepared a 5th updated version of this standard introductory book on Latin American history and they cover most of the current issues within their historical context.

More concerned about the future is John Williamson, the author of the term “Washington Consensus”. In *After the Washington Consensus. Restarting Growth and Reform in Latin America* (Williamson and Kuczynski 2003), the contributors to this collection try to re-establish the original meaning of the term “Washington Consensus” by concentrating on issues like institutional reform, redistribution and the fight against poverty. Though divided on specific issues – such as the appropriate currency regimes – the new consensus indicates that the “first generation” reforms, which were directed at stabilization and liberalization, must now be complemented by “second generation” institutional reform. However, like with the earlier proposals, the new consensus, too, is nothing more than the lowest common denominator of policy advice.

Mark Falcoff delivers a bleak analysis of Cuba's future with its potential ramifications for the Caribbean, Latin America and the United States. In *Cuba the Morning After. Confronting Castro's Legacy*, Falcoff (2003) presents the perspective that Cuba has lost its ability for nation building; that more than forty years of communist rule have permanently impoverished the island; and that instead of democracy and a dynamic economic one may rather expect a Cuba after Castro which will be economically dysfunctional, a host for drug trafficking and a source of terrorism. The author, who is a resident scholar at the American Enterprise Institute (AEI) and who was a professional staff member of the U.S. Senate Foreign Relations Committee, envisions the risk of a violent transition in Cuba with a potential civil war and the intervention by the Cuban exile community which would draw the U.S. military into the conflict.

Falcoff does not offer any concrete policy options and given that Cuba and Cuban-American relations are a well-researched area, his historical analysis lacks new insights. His conclusion about Cuba's future appears to be drawn out of thin air with probably mainly a political intent: calling the United States to get ready for a direct control of the island after Castro's demise.

Quite a different picture of Cuba is drawn in *Cuba on the Verge. An Island in Transition* edited by Terry McCoy (2003). This collection of essays and photographs presents a lively portrait of Cuba's current culture and everyday life. It is a book not about politics and economics in an abstract sense but about politics and economics as a practical presence in the life of the average Cuban. Supplemented by an epilogue by playwright Arthur Miller, this series of short essays is much more hopeful than bleak, as the contributors point to the cultural strengths of this country, to the vibrancy that comes from an identity beyond the transient rule of politics – a source of survival and pleasure that is also present in many other Latin American countries.

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