REVIEW ESSAYS

ECONOMIC ADJUSTMENT PROGRAMS AND THE PROSPECTS FOR RENEWED GROWTH IN LATIN AMERICA

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LATIN AMERICAN INFLATION: THEORETICAL INTERPRETATIONS AND EMPIRICAL RESULTS. By JULIO HAROLD COLE. (New York: Praeger, 1987. Pp. 85. $29.95.)

GROWTH-ORIENTED ADJUSTMENT PROGRAMS. Edited by VITTORIO CORBO, MORRIS GOLDSTEIN, and MOHSIN KHAN. (Washington, D.C.: International Monetary Fund and the World Bank, 1987. Pp. 533. $25.00.)

DEVELOPMENT AND EXTERNAL DEBT IN LATIN AMERICA: BASES FOR A NEW CONSENSUS. Edited by RICHARD FEINBERG and RICARDO FFRENCH-DAVIS. (Notre Dame, Ind.: University of Notre Dame Press, 1988. Pp. 281. $29.95.)

DEBT AND DISORDER: EXTERNAL FINANCING FOR DEVELOPMENT. By JOHN LOXLEY. (Boulder, Colo.: Westview, 1986. Pp. 220. $24.00.)

EXTERNAL DEBT, SAVINGS, AND GROWTH IN LATIN AMERICA. Edited by ANA MARIA MARTIRENA-MANTEL. (Washington, D.C.: International Monetary Fund and Instituto Torcuato di Tella, 1987. Pp. 207. $12.00.)

PERU AND THE INTERNATIONAL MONETARY FUND. By THOMAS SCHEETZ. (Pittsburgh, Pa.: University of Pittsburgh Press, 1986. Pp. 272. $29.95.)

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The widely divergent studies in the volumes under review bear directly on questions of whether and how Latin American economic growth can be resumed on some sustainable basis after the costly setbacks of the 1980s. These works bring out important changes in the never-ending debates over how best to handle problems of external finance, inflation, and structural impediments to growth. They go beyond traditional arguments between the more conservative concern with monetary restraint and the contrary emphasis on need for structural changes. In these books, the conservative side, as represented by the international financial institutions, seems to have moved over to focus on objectives of structural change. The explicit purpose is no longer just to restore financial balance but to change the way the economy works in order to permit growth on a more viable basis. That kind of change sounds promising, and could be so in practice, but it gets into the very uncertain terrain of exactly what kinds of structural changes would be helpful for growth, and what their implications are for equity and for democracy. The international institutions are trying to reach more deeply into the operation of the domestic economy, pushing for changes very much open to question, in a period in which the countries' ability to resist such pressures has been greatly weakened both by external debt and by recognition that their own prior mixtures of controls and incentives have not worked well.

Both *Growth-Oriented Adjustment Programs* and *External Debt, Savings, and Growth in Latin America* are conference volumes containing sharply conflicting interpretations of growth prospects and desirable economic strategies. They include illuminating papers by staff economists of the international financial institutions as well as contributions by many of their critics. Devoted followers of debates on "stabilization programs" will recognize many of the issues but may wonder why that venerable term seems to have disappeared. The answer is that the debate has moved on to the point at which statements by IMF economists pay more attention to factors determining growth than to price stabilization. One of the sharpest criticisms of IMF policies—written by Jeffrey Sachs in *Growth-Oriented Adjustment Programs*—even attacks the Fund for insufficient attention to stopping inflation. In his view (which is discussed below), the international agencies have come to the point of putting pressures for structural reorientation ahead of the need for firmly established macroeconomic stability, to a degree threatening any kind of successful revival.

Has the International Monetary Fund come to be more structuralist than monetarist? Not exactly, but in a sense, yes. Concerns for restraint on government spending and the money supply are still in the picture, but in these discussions questions of the structure of production and microeconomic factors affecting long-term growth come to the fore. The most explicit explanations by IMF economists are those of

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Vito Tanzi and Anthony Lanyi, both in the collection entitled *External Debt, Savings, and Growth in Latin America*. Tanzi explains especially well the transition in IMF thinking from primary concern with macroeconomic restraint to supply-side reforms expected to permit faster growth of output. His key argument is that optimal targets for the demand side depend on what can be accomplished by supply-side reforms. The more that can be done to correct problems on the supply side, the less need there is for the Fund to insist on fiscal restraint. Tanzi observes in a particularly suggestive formulation that removal of distortions inhibiting response of output "will over time increase the flow of foreign exchange available to the country. In other words, the removal of the distortions would have the same effect as an increase in foreign lending to the country" (p. 132, note 23).

What exactly are the kinds of corrective policies considered necessary to gain increased flexibility and better growth prospects? Tanzi makes a number of interesting suggestions, including one of the main propositions associated with older structuralist arguments: even in periods of deficit and inflation requiring overall restraint, forms of government spending that help release constraints on supply should be encouraged rather than cut back (pp. 134–35). Tanzi clearly does not agree with the point often expressed by IMF staff economists that it is always preferable to correct an excessive fiscal deficit by cutting government spending rather than by raising taxes, in line with the belief that a decreased role of government is itself a desirable goal. For Tanzi, raising taxes will help just as well as cutting government spending for purposes of demand management, and the choice for purposes of growth should depend on contributions (or impediments) to improvement of productivity: there is no necessary presumption that the economic role of the government as a whole should be cut back (p. 130).

The other major statement of IMF interpretations, by Anthony Lanyi, goes into greater detail about the meaning of desired structural change. In the first place, rigidities in the labor market need to be cleared up (pp. 32–33). In both industrialized and developing countries, wages should be made more flexible when times are bad (that is, they should be allowed to fall freely, or perhaps even be pushed down if they do not fall). "Such flexibility would limit losses of employment in declining industries or during general economic downturns." Other areas of reform for growth include financial market deregulation, "the curtailment of subsidies used to maintain uneconomic activities, deregulation when the cost of regulation clearly outweighs benefits, antimonopoly legislation, the sale of publicly owned enterprises when the latter have not been meeting the test of domestic and foreign competition," tax reforms, and "liberalizing restrictions on foreign trade and payments" (p. 48).

In Lanyi's explanation of IMF expectations and objectives, the

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economic performances of the industrialized countries play a dominant role in determining the framework of growth possibilities for the developing countries. Much of his discussion is concerned with coordination among the industrialized countries to improve prospects for world economic growth. As Lanyi makes clear, IMF staff views of the scope for such improvement are not highly optimistic. It is precisely because the possibilities are likely to remain more tightly constrained than in the past that IMF staff consider it more crucial than ever for the developing countries to make drastic revisions of their economic strategies. But are the recommendations for import liberalization, deregulation, ending of support for wages, and privatization really the best course to follow in such difficult conditions? Many good discussions of these questions in the volumes under review give powerful reasons for doubt, or for rejection of this path. Two of the best, both in *Growth-Oriented Adjustment Programs*, are those of Andrés Bianchi and Jeffrey Sachs.

Bianchi's article, "Adjustment in Latin America, 1981–86," is absolutely first-rate in its organization of condensed factual material and its discussion of the need for an "unholy alliance" between particular orthodox goals and more structuralist concerns (p. 216). He agrees with the orthodox stress on the need for export promotion and for positive real interest rates but amends it in vital ways by emphasizing selective promotional treatment among sectors of the economy, use of controls to ensure upper limits on real interest rates consistent with incentives for investment, selective reorientation of demand toward sectors with excess capacity, and much greater attention to the effects of adjustment programs on equity. Bianchi's position amounts to a firm restatement of the kind of structuralism associated with control and guidance of markets for economic and social goals established through the political system, but his stance is accompanied by recognition that this approach always broke down when it failed to pay attention to questions of domestic and external macroeconomic balance. It would be difficult to find anywhere a clearer statement of a kind of structuralism that answers the weaknesses of the older versions and could promise a solid basis for sustained growth.

The contribution by Sachs, "Trade and Exchange Rate Policies in Growth-Oriented Adjustment Programs," includes a severe attack on the IMF–World Bank target of combining macroeconomic stabilization with export promotion and trade liberalization. He gives good reasons for insisting that it is wrong to amalgamate these goals as if they were necessary parts of a single package. Stopping inflation and promoting exports are so strongly contradictory in the short run that their simultaneous pursuit is more likely to promote runaway inflation than it is to lead to any positive resolution. Sachs brings in a reminder of the high inflations in Japan and Korea in the early postwar years, when neither economy looked at all promising. They got to their powerful positions

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of export-led growth only as a delayed second step, after a considerable period of greater concern for controlling inflation. Further, Japan and Korea became powerful exporters without any significant degree of import liberalization, with the protection of tight controls on foreign investment, and with active state promotion rather than the kind of deregulation and privatization so strongly advocated by the international financial agencies now.

Sachs's points that the most successful East Asian exporters did not turn to import liberalization until long after their competitive export positions were well established and that they have never accepted any economic model prescribing reduction of state intervention to guide development are highly important correctives to the themes now urged on developing countries by the international financial agencies and the United States. His separate argument on the need to delay export promotion until well after domestic macroeconomic stabilization is assured raises more treacherous issues. The preference for ending inflation first is highly understandable, but if the methods involve a fixed nominal exchange rate and the absence of other strong measures of export promotion, the country concerned is very likely to find itself trapped either by lack of finance to get the imports required for inputs into production and investment or by deepening external debt. Sachs sidesteps these crucial questions in much the same way that many Latin American governments have tried to sidestep them: by insisting that new external credit has to be made available to provide the necessary breathing room. The solution is left up to outside agencies: "There is presently a dangerous myth that governments can work their economies out of any difficulties, no matter how severe, if only the correct policies are followed" (p. 305). That is one side of the truth. The other side is that national autonomy is bound to be deeply constrained and growth stopped whenever foreign creditors decide to shut off credit, if the growth of exports does not come fairly close to matching the growth of imports.

Sachs makes a distinctive and important point about the necessary conditions for successful adjustment: the kind of policy flexibility so critical for East Asian growth has owed a great deal to prior elimination of concentrated landholdings, to concern for rural as well as urban incomes, and in general to relatively low degrees of inequality. "The policy freedom of the East Asian economies to undertake adjustments in the name of efficiency exists by virtue of the relatively equal income distributions in these countries. In the absence of such income equality, policies oriented mainly toward efficiency may exacerbate an already very unequal income distribution, and may be enforceable only with heavy repression, as in Chile" (p. 321).

The other articles and statements in *Growth-Oriented Adjustment Programs* include a remarkably faithful presentation of the most conser-

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vative side of IMF positions by Manuel Guitián, a pair of strong attacks on that statement by Gerald Helleiner and John Williamson, two straightforward and useful reviews of the issues by leading World Bank economists Stanley Fischer and Constantine Michalopoulos, a free-swinging denunciation of shiftless debtor countries by Citicorp Chairman John Reed, and a quietly effective answer to Reed by Guillermo Ortiz.

External Debt, Savings, and Growth also contains a varied, but smaller, group of articles in addition to those of Tanzi and Lanyi, with an effective introduction and overview by editor Ana María Martirena-Mantel. Julio Berlinski makes the particularly interesting suggestion in his article on trade regimes that import liberalization is not likely to work unless it is given credibility by prior demonstration of capacity to raise exports (see especially pp. 11–12). The industrial sector will not begin to believe in its own capacity to survive import competition, nor will the society believe in the country's capacity to finance the imports resulting from liberalization, until they can perceive successful results from export growth. If the international financial agencies truly want more open trade, then the GATT rules should be amended to permit developing countries to subsidize exports "as a step in a program of import liberalization." The discussants at the conference argue that this idea is doubtful in itself and could delay desirable import liberalization. Berlinski's proposal might have that effect, but it fits well with Sachs's point about the successful East Asian exporters: they built their exports first, long before they considered import liberalization.

Another particularly interesting, but surely in part misdirected, article in *External Debt, Savings, and Growth* is Rudiger Dornbusch's "Impact on Debtor Countries of World Economic Conditions." He introduces a simple economic model to consider the effects of export promotion on the terms of trade of debtor countries and stands Raúl Prebisch's classic argument on its head. In this model, devaluation may not affect export prices of primary products, but it lowers prices of industrial exports. This effect is of course a logical possibility that should be explored. For a period in which many developing countries are simultaneously trying to promote nontraditional exports, it is more plausible than the common presumption that they are all price-takers in external markets, with industrial exports so small relative to world markets that increases in their export volume are unlikely to have any effects on prices. But the logical possibility that some or many of the prices of their industrial exports could be decreased is not itself any answer, or even a good clue, about whether or not the countries gain from promoting such exports. The questions that need exploration are left untouched. Do industrial exporters with differentiated products simply cut their export prices in terms of foreign exchange when their curren-

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cies are devalued, or do they pay some attention to market reactions and cut their external prices selectively, when and only when they expect the result to be favorable for earnings? Are the opportunity costs of producing added exports normally equal to the predevaluation external price, as this model seems to suggest, so that reductions of export prices imply a loss of real income, or do added exports stimulate increased production, raise employment and national income, and improve domestic living standards rather than reduce them?

More generally, should Latin American countries fear or should they instead hope for reduction in the export prices of their manufactured goods relative to those of producers in the industrialized countries? Lower relative prices for competitive industrial exports mean increased competitiveness: Latin American countries could get new exports started that would otherwise have been impossible and get them into markets in which, absent more competitive prices, they would never have gone at all. If the United States could wish any change in Japanese terms of trade, the wish would surely be that they would "improve," that is, that Japanese export prices would go up so that they would not be such deadly competitors. It is hard to understand how Dornbusch or anyone else would think it undesirable for Latin American industrial exporters to get their prices down. Part of the problem seems to be that he implicitly assumes full use of productive capacity, so that added exports would reduce domestic supply, but that assumption seems wholly out of touch with the Latin American context in the 1980s. As if to compensate for this confusion, with its potentially costly implication that these countries should not try to promote industrial exports, the article concludes with a condensed and convincing discussion of why debt-equity swaps are likely to be harmful, of capital flight, and of why debt relief is possible and would be a great help.

Development and External Debt in Latin America, edited by Richard Feinberg and Ricardo Ffrench-Davis, is a different kind of conference volume, in which all the contributors work together toward the goal of the book's subtitle, *Bases for a New Consensus*. The editors in their "Overview" and Ffrench-Davis in his concluding panel discussion (pp. 274–81) use the term *neo-structuralism* to designate the kind of economic strategy central to these discussions. The essence is close to many of the themes of Bianchi and Sachs: active state guidance of the economy as in earlier structuralism but with greater concern for inequality and rural poverty rather than a narrow stress on industry, more attention to export diversification and stricter limits on protection, plus concern for macroeconomic consistency. Among the many good chapters, those of Ffrench-Davis and Alejandro Foxley stand out for lively discussions of external trade and finance, and that of Eduardo White for a complex set of considerations on policies toward foreign direct investment.

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For Ffrench-Davis, the financial constraints of the 1980s make it clear that Latin America should return to import substitution in a new round calculated to reduce dependence on imported inputs, with selective reductions of particular trade restrictions but no generalized liberalization. One of the reasons to reject liberalization is that it makes it impossible for countries to avoid multiplied internal contraction when supplies of foreign exchange are interrupted. But renewed import substitution should differ fundamentally from the style of the past, in particular by paying great attention to improving efficiency "through a selective policy of import substitution that is made consistent with export promotion" (p. 41). For the more immediate task of reviving growth, Ffrench-Davis rejects insistence on deflationary policies and in particular on efforts to drive down the role of government in the economy. Private investment is not likely to revive on any sustained basis in the absence of increased public investment, both for its effects on demand and because of the need for adequate infrastructure. Greater public investment would mean "crowding in" greater private investment by improving growth prospects for private firms. Further, "Seeking to force the privatization of public enterprises during the present crisis most probably tends to deepen it" (p. 45).

Both Ffrench-Davis and Foxley examine many-sided considerations of policies toward external borrowing. On the one hand, they bring out clearly how inadequate financing for imported inputs can check growth and has been doing so in the 1980s. On the other hand, they rightly emphasize that restraints on external credit can exert pressures favorable to a more independent, more internally determined style of growth. For Foxley, the impossibility of "depending, as in the past, on high levels of external credit would make it possible for Latin America's new leaders to launch an appeal for large-scale nationwide mobilization to solve the debt crisis through domestic savings and internal efforts" (p. 81). That conclusion does not mean that Latin American countries should try to run export surpluses to reduce existing debt or try to avoid future borrowing completely. His suggested target, worked out with estimates of amounts needed to resume growth, is to limit borrowing, even when more credit is available, to rates that would keep debt from rising relative to GNP; borrowing can be helpful but not at anything like the pace from 1978 to mid-1982.

White's analysis of alternative policies toward foreign investment blends a good many reasons for distrusting and limiting the role of foreign firms with a fairly strong case for welcoming certain kinds of investment under specific conditions. This analysis is very much opposed to total freedom of entry, but it allows for real possibilities of gain from controlled entry. White's argument effectively demolishes any idea that Latin America can depend on large-scale foreign investment to

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replace external credit and to revive growth. Special favors to attract foreign investment have very little effect in the first place: what the firms respond to are productive projects within growing economies, not special favors in the context of tight monetary contraction and stagnation. And when investment does enter, it makes little or no contribution to foreign exchange. Investment cannot be expected to revive paralyzed economies. It will come back to some degree after its plunge in the 1980s, but only when the economies themselves have been reactivated through domestic measures. White asserts that when private foreign investors do try to come back, the important objective is to gain technological capacity, not to replace particular imports: "it is no longer a question of importing technological packages to replace imports, but rather one of learning and assimilating knowledge and participating actively in the changes on the leading edge of technology" (p. 168).

Discussions of Costa Rican adjustment from 1982 by Carlos Manuel Castillo and Peru up to 1986 by Richard Webb again bring out contrasting interpretations of the role of external credit. Castillo is mainly concerned with explaining the domestic policy adjustments that worked relatively well in Costa Rica in 1982–83, especially their element of protecting the lowest-income groups from the costs of necessary macroeconomic restraint. But he also notes the important and helpful role of external credit in lessening the strains of adjustment. In direct contrast, Webb underlines the profound costs for Peru of being able to use external credit on a large scale to prolong self-defeating economic strategies: "My personal view is that Peru will benefit by not being able to borrow abroad for the next decade or two" (p. 253).

John Loxley's *Debt and Disorder* examines practically all the above issues of debt, international credit, stabilization, and objectives of the international financial agencies. He is strongly oriented toward priority for basic needs and some version of the New International Economic Order, but he criticizes attempts to portray the IMF and the World Bank as instruments of the industrialized countries that are used to control the developing countries. He views these agencies instead as "embryonic surrogates for a world government" (p. 198). They overemphasize investment and growth relative to social issues but are genuinely concerned with the latter as well. A particularly useful chapter examines changes in World Bank lending programs in the 1980s, complementing the more frequent discussions of the IMF. Both institutions are subject to pressure and partial reorientation by the United States but are not simply servants of the United States or the industrialized countries collectively: they have agendas of their own that are more oriented toward real concern for the developing countries.

Loxley covers a great many issues, probably too many for such a relatively brief book, with extensive references to factual studies and

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alternative interpretations. The coverage is worldwide, but he gives special attention to problems of African countries based on his considerable experience as an advisor to Tanzania. Loxley's sympathies with socialist governments and solutions are clear. He agrees with the side of socialist thought that considers "market forces" to be manifestations of the existing structures of production and distribution at the root of underdevelopment (see especially p. 48). But he also recognizes the need for restraint of aggregate demand and attention to export incentives (provided that exports are selectively promoted for specific national purposes rather than expressions of a generalized priority placing exports above domestic needs). The discussion is close in spirit to the "neo-structuralism" of the articles in *Development and External Debt*.

Julio Harold Cole's *Latin American Inflation* and Thomas Scheetz's *Peru and the International Monetary Fund* stand at opposite poles of analysis and attitudes toward monetarism and stabilization. Cole wants to demonstrate that Latin American inflation can be explained by what happens to the money supply and that inflation can and should be ended by controlling monetary expansion. Scheetz wants to explain why the monetary approach to the balance of payments, as interpreted and used by the IMF, is analytically dubious, socially biased, and bound to be harmful to less-developed countries whenever it is applied to reshape their economic policies. Cole relies on simplified econometric testing, and Scheetz discusses in detail the equations involved in monetary analysis of the balance of payments, but both discussions should be readily understandable to nonspecialists. The two authors make their points, and their anger at uncomprehending antagonists, abundantly clear.

Latin American Inflation goes right back to the classic monetarist-structuralist arguments, demonstrating yet again that as long as the monetarists take the course of the money supply simply as given—and do not try to explain it—they have a good case. Cole uses a simple quantity-of-money equation to show that differences in rates of inflation among Latin American countries from 1970 to 1980 can be accounted for by differences in just two variables: rates of growth of the money supply pulling inflation up and rates of growth of real output helping to hold it down. Tests of the roles of bottlenecks stressed by structuralist interpretations—inelastic supplies and relative prices of food and of imports—show no systematic relationship to differences in rates of inflation. To the structuralists' point that monetarists cannot provide systematic reasons for differences in rates of growth of the money supply in the first place, Cole replies that the structuralists cannot either: the differences can only be explained by the specifics of the historical context and the individuals in positions to make the key decisions. Cole concludes, "The search for a general theory is a rather hopeless quest, since comparative analysis of inflationary episodes yields a

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picture of such irreducible diversity that it virtually precludes the possibility of any general explanatory hypothesis" (p. 66).

Cole's book opens no new paths in terms of method or economic concepts, but it has the merits of clarity and concision and includes a suggestive, if somewhat frustrating, chapter on the dramatic halt to hyperinflation achieved in Bolivia in 1985. Latin America has seen so many failures in such attempts that it is a happy change to see something actually work. The Bolivian story does not seem to have been a case of heterodox magic but instead of rare consistency in methods and implementation. The chapter, however, is terribly brief and arbitrary. It could have been more valuable if it had examined effects on employment, production, investment, and income distribution. In true monetarist style, the success in stopping inflation is taken to be the main story, without much evidence of concern for possible costs in other dimensions.

Scheetz takes apart the analytical model long considered basic by the IMF, the monetary approach to the balance of payments, both in terms of its logic and the effects of its application to developing countries. He reviews briefly the enormous literature that has argued and tested these questions in the past, but he concentrates his attention on negative social implications of the model for use in stabilization programs and the record of instability and thwarted stabilization programs in Peru. *Peru and the International Monetary Fund* is divided about equally into two chapters denouncing the IMF and two denouncing practically everyone and every institution able to influence events in Peru from the time of independence up to the end of the 1970s. Somewhat surprisingly for a book published in 1986, it does not go into the continuing process of disintegration of the 1980s.

Scheetz's logical critique of the monetary approach to the balance of payments and his criticism of IMF stabilization programs for social bias against workers and the poor come across clearly. But it no longer sounds either accurate or safe to conclude that the essential problem with IMF programs is their monetarist orientation, that "the supply side is then quietly ignored . . . yielding to a concentration on demand management" (p. 56). Or that "no development issues are raised, and the fundamental issue of equilibrium in the labor market is simply assumed away" (pp. 151–52). The emphasis by IMF economists in *External Debt, Savings, and Growth* is very much on supply-side adjustments for long-term development. The issue is whether their stated objectives for changes in development strategy are likely to make things better or make them worse. It seems a serious mistake to dismiss IMF talk about supply-side questions as a meaningless bow to fashionable discussion (chap. 2, n. 80). This set of issues is not meaningless; it is both a promise and a threat.

Scheetz's discussion of instability in Peru is full of suggestive

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points about long-term problems and about the particular frustrations of the 1970s. The IMF appears in this half of the book more as a background irritant, making unrealistic demands, than as the main actor in the story. There are too many domestic troublemakers to leave much room for outsiders. Blame is spread generously among export interests, the traditional oligarchy, private-sector interests in general, the greed of the military, most of the leading political figures in Peru, economists for misdirecting attention away from fundamentals toward surface phenomena, and in some passages, even such considerations as fiscal deficits, the money supply, overvalued exchange rates, and similar factors that even the IMF would consider relevant. The vigor with which each of these sources of trouble is criticized tends to make each in turn seem to be the main enemy; problems are overexplained in the Agathie Christie sense of almost unlimited suspects. This approach serves as a reminder of the enormous variety of considerations at issue, but it fails to provide anything like an integration of the separate critiques into any structured explanation of how they interact to determine the course of events or to shape alternative possibilities.

Scheetz notes at the end that "this book has provided a negative critique of the IMF. No alternative solution to the difficulties raised has been proffered; the work was not meant to do so" (p. 153). That self-judgment may be too harsh. *Peru and the International Monetary Fund* could be very stimulating for discussions of crucial choices of economic strategy. A particularly suggestive theme is that "the stability of the system (national or international) is a goal for the poor only provided that old wrongs are first righted" (p. 3). That understanding is an important corrective against obsession with stabilization as an end in itself. But it also suggests a view that can become extremely costly to the people of any country, as it has in Peru: that the necessity of some restraint on spending can or should be ignored in the interests of higher purpose. Looking back in 1989 at the failure to achieve any semblance of stabilization in Peru in the last twenty years—with external constraints closing in at high cost, inflation far worse than in the 1970s or ever before, production and standards of living of the poor falling steeply, and the society seemingly unable to function in any positive way—it is difficult to resist a suspicion that greater concern for macroeconomic balance might have yielded better results, for the poor and for everyone else.

It is both a chastening and an encouraging experience to examine so many conflicting studies by authors with so much knowledge of these problems. Can economics or any other social science ever agree on any set of ideas that could be counted on to point out helpful directions? Full agreement is too much to expect, and maybe not even desirable. The conflicts come out of differences in values and social identifi-

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cations, all of which have their place in a lively world. Still, there is a core group of ideas shared by many of these authors that combines elements of both old and new styles of structuralism with some of the older monetarist criticisms—the kind of "unholy alliance" explained by Bianchi.

The essays in *Development and External Debt* explain a core set of ideas that could help greatly to raise the chances of more successful styles of development in the years ahead. Many of the studies in the other volumes under review come close to the same basic set of ideas, notably those of Bianchi and Sachs in *Growth-Oriented Adjustment Programs,* parts of Tanzi's discussion and Berlinski's key idea in *External Debt, Savings, and Growth,* and Loxley's *Debt and Disorder*. Among the main elements are recommendations against any return to high levels of borrowing, even when external credit conditions might again make it possible, accepting as the implication of this goal the need to pay more active attention to diversification and promotion of exports in order to keep up with the growth of imports necessary for production. Another shared element is the rejection of generalized import liberalization in favor of renewed import substitution, but with greater selectivity and tighter limits on allowable degrees of protection and preservation of incentives for exports. Traditional and valuable structuralist objectives—efforts to widen access to education, land, and political participation, to reduce inequality, and to use government investment to shape the style of growth—are restated but are now accompanied by firm warnings about the need to keep total spending in line with the productive capacity of the economy. Then all the arguments about particular methods enter the picture, as they should because neither generalized analysis nor existing evidence provide dependable answers about the effects of detailed changes in regulation, ownership, and incentives in different national contexts.

If the right three-fourths of these authors could be brought together to recommend economic strategy for the 1990s, for Latin American countries or the IMF and the World Bank, they would find a great deal of common ground in what Ffrench-Davis terms "neo-structuralism." (The other one-fourth would be welcome as a Greek chorus to give dire warnings but best kept out of decisions on what to do.) Even given the low rate of growth of markets in industrialized countries and the limited access to external credit seen as likely by IMF projections, this kind of neo-structural strategy would offer promise of both renewed and less inequitable economic growth in the decade ahead.

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