

Review: The Global Financial Crisis and Latin America

Reviewed Work(s): Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation by Gustavo Crespi, Eduardo Fernández-Arias and Ernesto Stein: Macroeconomics and Development: Roberto Frenkel and the Economics of Latin America by Mario Damill, Martín Rapetti and Guillermo Rozenwurcel: Free Trade and Faithful Globalization: Saving the Market by Amy Reynolds: Latin America after the Financial Crisis: Economic R ...

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BOOK REVIEW ESSAYS

The Global Financial Crisis and Latin America

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This essay reviews the following works:

Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation. Edited by Gustavo Crespi, Eduardo Fernández-Arias, and Ernesto Stein; Inter-American Development Bank. New York: Palgrave Macmillan, 2014. Pp. xxix + 461. \$54.99 paperback. ISBN: 9781137397164.

Macroeconomics and Development: Roberto Frenkel and the Economics of Latin America. Edited by Mario Damill, Martín Rapetti, and Guillermo Rozenwurcel. New York: Columbia University Press, 2016. Pp. xi + 389. \$65.00 hardcover. ISBN: 9780231175081.

Free Trade and Faithful Globalization: Saving the Market. By Amy Reynolds. New York: Cambridge University Press, 2015. Pp. x + 179. \$28.99 paperback. ISBN: 9781107435179.

Latin America after the Financial Crisis: Economic Ramifications from Heterodox Perspectives. Edited by Juan E. Santarcángelo, Orlando Justo, and Paul Cooney. New York: Palgrave Macmillan. Pp. vii + 251. \$149.99 hardcover. ISBN: 9781137486615.

Meaningful Resistance: Market Reforms and the Roots of Social Protest in Latin America. By Erica S. Simmons. New York: Cambridge University Press, 2016. Pp. xi + 219. \$27.99 paperback. ISBN: 9781107562059.

Global Capitalism in Disarray: Inequality, Debt, and Austerity. By Andrés Solimano. New York: Oxford University Press, 2017. Pp. xi + 235. \$35.95 hardcover. ISBN: 9780190626273.

The Last Day of Oppression, and the First Day of the Same: The Politics and Economics of the New Latin American Left. By Jeffery R. Webber. Chicago: Haymarket Books, 2017. Pp. 1 + 305. \$26.00 paperback. ISBN: 9780745399539.

The global financial crisis disrupted more than markets; it unsettled the core of the market-state relationship. Financial stress and global recession laid bare the weaknesses of old policymaking approaches and exposed the vulnerabilities of economies in a globally connected system. The dominant neoliberal model was stripped of the illusion of market purity as states around the world aggressively addressed market failure with active monetary and fiscal policies. The crisis cut down global markets as well as how we see the market-state relationship. For Latin America, this initiated a new narrative on what constitutes sound economic policy.

The global crisis of 2007–2008 oddly originated in US domestic real estate markets. Subprime mortgages—those offered to nontraditional borrowers to expand housing options for the lower middle class—were sliced into collateralized debt obligations (CDOs) to package risk by pooling the geographical basis of the loans. Ratings agencies such as Standard and Poor's certified these opaque instruments, and financial markets distributed these pooled instruments around the world. It was a simple yet erroneous concept: a housing crisis in Alabama would not occur at the same time as one in Arizona. When hedge funds, however, began to bet against these assets, confidence collapsed. Few understood the complicated underlying value of the instruments, calling into question the systemic failures of financial markets to produce credible investment

products. Lending froze, both in the US and abroad, as it was unclear how these products had tainted bank balance sheets. Consumers retreated as the possibility of job loss loomed with recession. As large North American and European markets contracted, exporters were hard hit. Through both trade and financial channels, growth in Latin America, as in most of the world, ground to a halt.

For Latin America, the surprise was that the crisis did not adhere to the old trope that when the economy of the United States caught a cold, Latin America contracted pneumonia. Instead, with the tailwind of Chinese commodity demand, the GDPs of most countries in the Latin American region rebounded quickly. Simultaneously, policymaking became unbounded by strict rules of neoliberal market management. By 2009, the cover of the *Economist* showed Brazil rising with Rio's iconic statue Cristo in takeoff. Global capital, searching for returns in stagnant advanced economies, flooded back to emerging markets. But the euphoria of escaping a prolonged imported recession from the toxic bonds originating in the United States may have blinded policymakers to the opportunity to address tough structural challenges during a period of growth.

Latin America can be seen as an economic laboratory showcasing historical experiments in open-market liberalism, commodity-driven development, protective productive policies under import substitution, grinding effects of debt and neoliberal adjustment, and inclusive development dramatically reducing poverty. Broadly shared approaches, initially framed by structuralist voices within CEPAL and then in part imposed by the international community, conditioned national policies. With some outliers, countries in the region moved through the golden age of commodity exports, import-substitution industrialization, and Washington Consensus adjustment to the debt crisis. The rise of China—and its strong demonstration effect of a mixed economy—along with the discrediting of a pure market based approach to avoid crisis opened considerable policy space. Today, we can observe an eclectic adaptation of policies lacking in regional coherence. What can this diversity of approaches tell us about growth in Latin America?

The six books considered in this essay grapple with various aspects of disrupted growth models in Latin America. What had changed to promote a quick recovery following the global financial crisis? What were the weaknesses of neoliberal market prescriptions at the onset of the global financial crisis, and how did civil society respond? Has the regional growth model fundamentally changed? What market failures remain that lead to less robust growth moving forward? These texts provide guidance if not definitive answers.

Macro Balance and Fiscal Space in Latin America

If the global financial crisis was a canary in a coal mine for international capitalism, the authors contributing to *Macroeconomics and Development: Roberto Frenkel and the Economics of Latin America* provide some oxygen on how to keep the bird alive. This Festschrift for Frenkel, with many essays by well-known contemporaries, confronts key topics that engaged Frenkel's ideas if not directly tackling his work. This edited compendium contributes to developing a new conceptual lens to understand structuralist economics. As clearly presented in this book, a structuralist reading of macroeconomic performance in Latin America focuses on an exogenous shock that drives a wedge between domestic and global benchmark interest rates; capital flows in to appropriate gains. Under a fixed exchange rate regime, real appreciation ensues, the current account dives negative, and early optimism is overcome by negative expectations of an impending collapse—which, as commonly observed, becomes a self-fulfilling prophecy of credit outflows, grinding recession, and austerity. Even with a flexible exchange regime, the exposure of rates to relative global demands exposes external pressures to trigger domestic crises. An exchange rate does not only represent the value of your economic activity and monetary stocks; it also expresses the valuation relative to another nation. A globally open country imports the policies and performance of economic partners through the exchange rate. When this key variable—the exchange rate competitiveness channel—is not largely under the control of domestic policymakers, building resilience in the face of global shocks is a daunting task.

Macroeconomics and Development helps us understand how decades of macro adjustments positioned the region to absorb some of the global shock of 2007–2008. Ricardo Ffrench-Davis's chapter focuses on the challenges of generating macro equilibrium in the face of external shocks when countercyclical domestic policy options such as the use of sovereign wealth funds is weak or underused. The neoclassical challenge is getting prices right—but for whom? When financierism guides policy, interest and exchange rates are set to please global markets. Financierism, sometimes called financialization, places priority on capital flows over real investment in the economy. With pressures created by commodity super cycles, attention to financial markets requires a set of prices at odds with the needs of micro investments in inclusive and productive growth. As José Antonio Ocampo points out in a later chapter, balance of payment dominance in short-term

macro policy creates procyclical tendencies that mitigate against micro deepening. Prioritizing the external variable of balance in trade and financial flows fosters neglect of internal demands for industrial investment. Andrés Solimano cautions over the wide variety of igniting factors that occur under a range of exchange rate regimes; institutional reforms are indicated to decrease fragility. The sharp focus on macro tradeoffs helps us see the challenges of fostering stability in a volatile world.

Volatility requires stabilizers. José María Fanelli contributes that institutions are a mechanism for managing conflict; a crisis can challenge the capacity of institutions to mediate claims. When the existing rules of the game become dysfunctional, the legitimacy of the system collapses. Developing nations face the same challenges as the more developed world in adjudicating competing claims on scarce resources, except that the resources are even more constrained and tradeoffs more difficult. Distributional challenges at the core of policy choice are exacerbated when the sum of the claims on national wealth exceed the stock value. Fanelli writes about property rights, but the claims made by citizens on international standards for health and education also exceed the capacity to deliver, especially under financial stress. Periods of instability undermine the credibility of existing institutions.

This tension between macroeconomic stress and micro allocation goes far in understanding current contradictions in the region. The wake of decades of macro instability and the more recent global financial tsunami have roiled the credibility of institutions to deliver consistent social advancement. Fanelli observes politicians rushing in to demonstrate gains within short political cycles, and succumbing to the efficacy of capturing rents through corrupt mechanisms rather than the slow and frustrating investments in institutional deepening that may lead to systemic equilibrium. While countries in the region rebounded from the financial shock, the crisis derailed longer term investments in microfoundations and institutional capacity.

Macroeconomics and Development is an important departure point for those working in macro and development through the lens of Frenkel's contributions. I would have loved a final essay in this compilation edited by its editors and Frenkel's close colleagues (Guillermo Rozenwurcel, Mario Damill) and a former student (Martín Rapetti) to pull thoughts together. What are the concrete policy guideposts to promoted stability alongside institutions for productive and inclusive growth? This is, of course, the elusive egg of the golden goose. But as economies in the region appear to waver almost drunkenly between state-driven strategies that have predictably been co-opted by weak political institutions and global financial markets exacting austerity tribute, a few lessons learned may have helped us on our way to consider a new structuralism in the region.

Similarly, *Latin America after the Financial Crisis* is stronger on diagnosis than innovative policy prescription. Juan E. Santarcángelo and heterodox colleagues provide a richly textured view of how Latin America experienced the global financial crisis. Opening with commonly understood causes of the crisis in globalized capital markets, the book contests the neoclassical view that unsound monetary policy, regulatory failures, fraudulent practices, and external shocks were at the core of the seismic crisis. In probing the crisis in 2007–2008, a post-Keynesian view might point to market failures and weak institutions to manage macro shocks. Ninja mortgages—no income, no job, no assets—originating in the United States morphed to threaten the global system. Regulatory failures coupled with weak macro attempts to increase employment failed to equilibrate the international system.

Beyond these surface explanations, the authors push us to consider deeper systemic explanations as economies unwind in the longer term. Hyman Minsky, as the authors characterize, puts the financial economy at the center of crisis. In a period of growth, euphoric expectations heat up alongside the economy until they outrun reality. In the ramp-up, borrowing accelerates to fuel anticipated growth. Large cash flows create abundant lending opportunities that are channeled into short-term profits. As the shadow of real performance darkens expectations, overly leveraged economies collapse. Latin America received cheap global capital to infuse its markets, but did not leverage this for productive growth. Instead, the illusion of growth in the financial sector obscured weak foundations. Weighed by debt that did not track productive growth, the economic is unable to absorb the financial shocks. As Santarcángelo reminds us, the Marxian view deepens our cyclical perspective, pointing us to the role of class conflict and falling rates of profit over business cycles. Crises are generated from within the system, not as external shocks, as a predictable response to the inability of firms driven by fictitious capital unconnected to real production. A shock may spark a crisis, but only as a result of a system of generalized market failures.

In this sense, the global financial crisis was a lens to see the exhaustion of neoliberal capitalism that is no longer able to return high profit rates alongside stable accumulation practices. The signature aspect of early twenty-first-century global capitalism, financialism, increases this cyclical instability. As Fred Moseley's work

demonstrates, rather than sending countervailing signals for automatic adjustment, the changes in economies embracing financialism accelerate crisis. Financialism can be thought of as market capitalism on steroids. The goal of maximizing profits for shareholders creates systemic pressure toward short-term movements; the vehicle for quick profits preferences financial market transactions over longer-term investments in the productive economy. As the rewards of financialism attract high-stakes players, others, including those in the developing world, lose. Global capitalism cannot perpetually sustain high financial rewards divorced from productive performance; the global financial crisis was a painful reminder of systemic instability.

Country chapters in *Latin America after the Financial Crisis* nicely outline elements of the region's macro and financial performance during the crisis. For Argentina, Santarcángelo and Guido Perrone show how the outbreak of crisis helped reinforce the structural relevance of traditional sectors in Argentina. The financial compression hits Argentina while it was still adjusting to changes from its currency board regime to a system of managed exchange rates. Its exit from shocks was to follow the call of China to deliver agricultural exports, a reversion to the earlier export-led model. Brazil also experienced a process of re-primarization in this period. The increase in primary exports, largely also to China, accompanies a brutal cut in manufacturing. While this process of deindustrialization began before the crisis, Paul Cooney and Gilberto Marquez suggest that global financial pressures likely reinforced the structural shift. Although the change in the global rules of macro engagement allowed for countercyclical measures of expanding bank credit driven largely through the Brazilian state bank BNDEs, this was not enough to prompt dynamic growth. In the Chile chapter, Claudio Lara Cortés explains how the expansion of credit growth in the post-crisis period of 2009–2010 led to a subsequent drag on the economy. For commodity exporters, the outcome of Chinese-driven growth as tailwinds to the financial crisis reinforced the traditional dependent position of countries in the global system, albeit with a new dominant partner in the core. For Abelardo Mariña Flores and Sergio Cámara Izquierdo, the Mexican case of neoliberal opening subjugated the economy to the demands of foreign multinationals and not the requisites to improving productive capacities in the national economy. Financial concerns trumped real investment.

One policy direction offered by the authors is to break with global blocks and promote autonomy. Ironically, the recommendation of severing strong trade ties appears to be followed by the northern neighbor, the United States, and the region's response is largely to reaffirm other global trade arrangements. Dependency has shifted from a north-south to a Sino-Latin form. An unknown at this time is the degree to which China will prove to be a stabilizing or disruptive global force for Latin America. In addition to its uneven demands for primary exports from Latin America, it is hard to trace its financial presence in the region with less transparent practices. This is not insignificant as the Chinese now lend more than the World Bank, and largely to extractivist projects in the region. Old asymmetrical center-periphery relations may just have a new center. Latin American structural weaknesses made apparent by the global financial crisis remain under construction. The global financial crisis was, as Lara Cortés points out, a crisis of capitalist globalization. The face of mid-twenty-first-century global economic relations is as yet unfinished.

Andrés Solimano also probes the crisis of global capitalism in *Global Capitalism in Disarray: Inequality, Debt, and Austerity*. His globally comparative treatment—Chile is the only country in the book within Latin America—resonates with the diagnosis of the Santarcángelo work. Capitalism's disarray emerges in part from the current inability for markets to right themselves fully. Cycles of rapid credit expansion leave markets dangerously indebted; in a down cycle the costs of painful deleveraging come at the price of expanding a socially inclusive policy matrix. Marx's fictitious capital—a prescient description of financialization—creates extreme cases of financial fragility. Procapitalist policies reinforce unequal power of elites to maintain privilege and undermine social cohesion. Chile is well known as one of the world's most unequal societies. Twelve families listed as Chile's billionaire dynasties by Forbes collectively account for combined wealth of 15 percent of Chilean GDP. Uneven distribution not surprisingly replicates unbalanced growth.

Solimano, like most authors in this diverse set of books, doesn't provide us with much in terms of concrete policy recommendations. Chile's tilt again to the right in the 2017 election returning Sebastián Piñera to the presidency may point to the constraints that a more socially inclined government such as also second-time president Michelle Bachelet faces upending structures of elite power and the concentration of wealth. The heterodox analysis suggests that a high concentration of wealth creates a stagnant bias of under consumption by the masses thwarts real, as opposed to financial, growth. Disruption of this dependent capitalist growth model would imply upending elite control; but midwifing this revolution in economic distribution of wealth and power appears outside the functionality of the political system. The neoliberal experiment in Chile is a long-running example of the tension between the need to promote broadly shared prosperity as a source of stable growth, and political distributions of power that cater to the needs of the über-wealthy.

Why Do We Continue to See More of the Same in Latin American Policy?

Why have we not seen more sustainable and inclusive policy packages from the tumultuous economic laboratories we call Latin America? Jeffery Webber's *The Last Day of Oppression, and the First Day of the Same: The Politics and Economics of the New Latin American Left* provides a deep dive into the alternative experience of left-wing governments and social movements in the region. Spoiler alert: despite a rich range of political and economic experiments, the left-leaning "pink tide" governments of the last two decades did not restructure foundational elements in Latin American economies. Although these populist programs successfully redirected wealth to reduce poverty in historically unprecedented ways, this transfer did not fundamentally alter the elite class structure of Latin American societies. Instead, they compensated the least well-off in society with rents from the commodity supercycle.

There is much to admire in the accomplishments of compensatory states. Poverty in Latin America was roughly halved and an incipient middle class was incubated. Venezuela, Bolivia, Ecuador, and Brazil were able to capture the surplus from the commodity boom and, through social innovations such as conditional cash transfer programs accompanied by state investments in broadening health systems, achieved significant social gains. As Webber notes, social compensation expanded the consumption capabilities of the popular classes while providing an internal momentum for economic expansion. The benefits flowing to the bottom were a function of extractivism, with, perhaps, no more fundamental changes than appear in growth periods of market trickle-down economics. Although the state intermediated the transfer, fundamental rights and privileges were not rearranged. Elites retained control.

Social gains were limited by the global markets tied to rentier capitalism. The end of the commodity supercycle triggered severe cutbacks in the financial capacity to provide for a universal standard of living without infringing on the ability of the elite to maintain their own privileged ecosphere. The moderate left's conflict avoidance when it comes to international capital constrained it from deeper redistribution of assets as opposed to sharing the financial flows in extractive capitalism. For the most part, a redistributive left in Latin America was not a radical left.

Webber offers Venezuela as a counterpoint to the radical left "lite" characterization. Neoliberal austerity was roundly rejected by Chavez from 1999 to 2013 and replaced by Bolivarian socialism. Chavez's missions attempted to change how Venezuelans excluded from the provision of health and education services received social goods. While indeed Venezuelans have been through a profound shared struggle, this has not fully transformed class boundaries. Webber invokes Skocpol's criteria for social revolutions as experiences that combine two coincidences: societal structural change evidencing class upheaval alongside political and social transformation. Yet the current economic crisis in Venezuela leaves it as less than a shining example for citizens in a social democracy to choose a valued life. Those suffering from the deprivation of food, medicine, and other amenities of modern life in Venezuela today may not appreciate the upending of market institutions that had delivered sustenance and meager comforts. Although it may be too soon to tell, the images from Venezuela of starving children alongside the wealthy continuing to access fine food and goods does not portend a happy revolutionary ending.

In part, the difficulty of articulating and implementing a new left economic model appears to lie in the contradiction between the needs of global capitalism and those of domestic development. Growth requires financing. This can come in payments exchanged for goods and services—quite frequently extractive—or from capital markets and multinational investment. One can introduce policy measures to minimize this dependency on global finance, but in periods of austerity, it is a binding constraint. Since the writing of *The Last Day of Oppression*, the tired old models that preferenced markets before social compensation have returned. Voters in Argentina, Peru, Mexico, and now likely Chile are jettisoning the left-liberal governments that failed in an essential transformation of their lives for a reprise of market-first governments. This presents not as an ideological turn to market fundamentalism but rather as an expression of dissatisfaction with delegitimized compensatory states poorly positioned in the global system to deliver. This expression of dissatisfaction is fueled by the theology of prosperity of Evangelical Protestantism that validates the values of individual over communal goals. The global financial crisis created operational space for state capitalism. It did not, however, separate economies from the exigencies of global financial markets. Ten years after the international crisis, countries must continue to don the golden financial straitjacket—a set of short-term financial metrics as assurances to capital markets. Ironically, the austerity of left-leaning governments forced by the financial system has created political space for the right to thrive in the region. As Webber's sad title indicates, it is more of the same.

Webber brings theoretical depth to his exploration of alternatives to capitalist development in the region. Using life histories and detailed characterizations of the historical moment, he urges a creative reinterpretation

of Marxian thought as a guide to change in Latin America. His conclusion, however, remains cloudy and dark as Latin American countries are navigating a period where communal norms are trampled in the face of financial constraints. The rise of the left with the pink tide did not alter Latin America's insertion into the global economy as largely extractive exporters, nor did it reframe domestic class relations. The extractive model of accumulation, for Webber, did not allow for the retooling of capitalist states by progressive but not revolutionary governments. Explosive social movements propelled left-leaning governments to power; popular protests today make claims on the abuse of that power by corrupt politicians receiving kickbacks. Corruption is a toxic tax, and those masses paying the price are justifiably angry. Marxist analysts, along with more mainstream economists, missed the power of rejection of well-meaning but infected compensatory states. The delegitimized left may do well to study the historical examples of social resistance offered by Webber to reinvent a new paradigm. Iconic figures may provide guides to reconstructing the trust critical to effective institutional deepening.

Understanding Resistance

The search for authentic alternatives to the crises of capitalism can take us to the community level. Erica Simmons offers accounts of the ways in which communities in Bolivia and Mexico organized to address the most divisive elements of market insertion into socially constructed meaning. The adoption of market pricing for water in Cochabamba, Bolivia, and corn in Mexico City put community relationships—the core of stability—at risk. In the water case, Simmons carefully and compellingly shows how latent grievances can be infused with shared meaning to mobilize communities. How water is distributed is a fundamentally political task. Communally guided solutions prioritize different outcomes instead of price and profit. When water pricing resulted in the budget pressure of 11 percent of the monthly minimum wage in a community where 55 percent are scraping by under the poverty line, the costs of marketization were oppressively burdensome. Simmons shows the way that framing water as a communal resource and not a commodity allowed for common cause in mobilizing to reassert community control over this resource. The deep cultural meanings associated with water allowed participants to bond for effective mobilization. As global resources become increasingly scarce, this case provides a positive vehicle for socially inclusive change: community-based relations. As Simmons notes, “We must better understand how people understand and order their worlds, and how ideas are produced through practices. ... this book is about the ways the politics of the everyday intersect with and shape the politics of the extraordinary” (201). Taking advantage of the lessons of resistance will, not surprisingly, be grounded in local expressions of how communities can re-create space to manage the challenges of neoliberal approaches to development. Reaching down to deep symbolic meanings created by communities may help shape a more equitable future.

While this dialectic between locally imbued meanings and resistance to change is alluring, I question its force in the face of the challenges of globalization. In *Free Trade and Faithful Globalization*, Amy Reynolds also looks toward deep communities—in her case faith communities—that challenge the values underpinning capitalists systems. Advancing the notion that markets are cultural constructions, Reynolds probes into how religious organizations can once again counter market values to provide for more humanized development outcomes. This well-done comparative case study rich in theoretical grounding examines what it means to prioritize community in a free market system. Reynolds follows the discourse of three Christian groups with different religious traditions as they encounter trade politics, focusing largely on Central American free trade (CAFTA). In addition to serving as a template for careful case-based research, the study unveils how market-directed policy can be framed by social and religious engagement. Rather than acceding to the dominance of global financial forces, communities can lever local responses. As community organizations may be eclipsed by elite and powerful transnational networks, community-based values can help define how the costs and benefits of globalization are shared in a society. As global capitalism leaves behind forgotten places, religious communities can create the discourse to transcend individual wants and address social needs. In the search for a more equitable paradigm as an alternative to policies dominated by market norms, engaging religious and communitarian discourse may encourage creative policy options. The difficulty, of course, is that the discourse of religion is steamrolled by economic exigencies. The discourse rapidly reproduced by most social media squeezes discussions of values to focus on the financial and political returns of the day.

A Hybrid Alternative?

The global financial crisis revealed the structural weaknesses of Latin American economic development. This large, disruptive global shock, initially facilitated by the presence of foreign banks, was reinforced by a trade and export demand shock. The rounds of expansionary macro policy in the advanced world—so

called quantitative easing—gave rise to extraordinary strengthening of exchange rates that, combined with Chinese demand for natural resources, created headwinds for industrial growth in the region. The pains of deindustrialization and the pressures of globalized financial markets are common themes across these volumes. Latin American economies, while rebounding from the global financial crisis with a surprisingly rapid V-shaped recovery, have not addressed the diagnoses of the early dependency theorists that pointed to elite control and asymmetric, dependent insertion in the global economy. Although the global financial crisis punctured the ideological purity of neoliberal prescriptions, as nations across the globe intervened in economies, a workable alternative response for sustainable, inclusive growth did not emerge.

What might be done in the dark impasse described by Webber? The Inter-American Development Bank (IDB) offers an alternative blueprint to a pure market or centrally state based recipe. In *Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation*, the prescriptions of editors Gustavo Crespi, Eduardo Fernández-Arias, and Ernesto Stein find affirmation from neostructuralists in their clear focus on institution building. They are hardly revolutionary, and also begin with a very clear-eyed view of when markets fail, and what instruments might compensate to promote effective productive development policies (PDPs). The book addresses the region's widening productivity gap relative to the United States from roughly a quarter in the early 1960s to now nearly half. As distinct from old import-substitution policies, the IDB offers a new direction for PDPs as outward-oriented measures for states to coordinate responses to market failures that restrain autonomous growth. The PDP approach cautions against the state-capitalist model of picking winners, which led to corrupt rent-seeking behavior. Instead, interventions might focus on the production of public goods or provision of generalized subsidies or tax breaks to encourage economic dynamism. Policies to encourage a revival of productivity ought to engage economy-wide measures enhancing competitiveness in the global value chain, not industrial policy.

Based on a rich set of commissioned case studies grounded in a generous reading of the academic literature, the editors do a beautiful job of presenting the work in a single, reader-friendly voice. The book contests market fundamentalism in that it clearly specifies the causes of market failures grounded in asymmetric information, uncertainty, coordination failures, weak institutional capacity and the inability to capture the social returns (or limit the external costs) with public goods. Its focus on preparing people to produce—an exhortation for education across the life cycle—is well placed. Echoing Michael Porter's work, the book advocates for cluster development programs (CDPs) and value chain programs to address information problems and knowledge spillovers, as well as to lower the transaction costs to stronger collective action. Industrial countries could also rip a page from this piece in making the case for infrastructure as a public good that is critical for both equitable internal development as well as sustainable insertion into the global economy. Focusing on the ingredients for productive transformations may propel Latin American economies to address the age-old bottlenecks of import-substitution industrialization with a new, dynamic global lens. The accumulated lessons of failed past policies with unintended exclusionary outcomes come to bear in the recommendation for wide stakeholder consultation that builds the trust required for a productive public-private dialogue. It recognizes that entrepreneurial energies emanate from varied local contexts; experiments, feedback loops, and adaptation will enhance positive results. The authors encourage transparent mechanisms for accountability to offset the corrosion of corruption that drains productive capacities.

Rethinking Productive Development is not a radical treatise, but well adapted, it could transform the institutions guiding and inhibiting growth in Latin America. Like the adaptations introduced by left-leaning governments, it is unlikely to fundamentally alter the unequal allocation of assets in the region that perpetuate elite power. But the last section on the hard task of building public sector capacities, with its thoughtful suggestions for institutional change, may provide an environment to encourage productive capacities for more resilient economies. One may wonder whether there is time, before the next global crisis hits, to induce the behavioral changes that encourage long-term investment in an entrepreneurial ecosystem for Latin America. Crises reveal structural weaknesses; the global financial crisis was one of the most damaging to capitalism as a system. Although investing in the productive potential of economies in the region will not radically remake the Latin American economic landscape, it may create the space for new, more resilient forms of productive organization to emerge. Excessive reliance on financial flows makes for brittle structures; the development of more inclusive productive foundations can promote resiliency and tap into the growth potential of the Latin American region.

Until institutions grow to become more nimble and just arbiters of domestic needs under the pressures of global financial demands, a new alternative model is unlikely to emerge. Building institutions is rarely the work prompted by ideological or political positions. Instead, it is incremental, sometimes barely visible

change that knits together disparate social demands. If an outcome of the global financial crisis was a more pragmatic approach to market intervention, a takeaway from the past decade of heterodox experiments is the need to deepen mechanisms of accountability to moderate elite capture. Only after undertaking this difficult domestic work can the region experience autonomous, productive, and sustainable growth.

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