

# Neoliberalism, policy failures, and the COVID-19 crisis

Going beyond Hirschman's *fracasomanía*

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I have never given up looking for new solutions to political problems.

(Hirschman, 2001 [1999])

## Introduction

As the global economy is recovering from the several health and economic emergencies caused by the COVID-19 pandemic, Latin American countries find themselves yet again at a policy crossroads. The economic and social fallouts of this current crisis and the various unresolved contradictions from previous crises have sparked discussions over which policies will lead to a sustainable and inclusive recovery. While there is no doubt that after decades of reforms informed by the neoliberal ideology there is a need to rethink economic policymaking, the question whether to continue along a market-led policy path or whether the state needs to retake the realms of economic policymaking seems unresolved.

The work of one of the twentieth century's most prolific economists studying Latin American societies Alfred O. Hirschman can inform the debate about the lessons we can learn from past policy failures. Hirschman was a close observer of economic and social progress in different Latin American contexts. Arguably one of his most famous concepts, developed in *Journeys Toward Progress: Studies Of Economic Policymaking In Latin America* (1963), is what he coined *fracasomanía*. This describes the tendency of elites and new governments to believe and to proclaim that all efforts of the prior government have been a complete failure (*fracaso*), without being able to filter out those measures which might have been conducive to development and progress. This complex then inevitably leads to the complete overhauling of all policy fields, which renders efforts for incremental policy changes futile and lead to policy failure. While this chapter finds Hirschman's concepts helpful in understanding policy failures and paradigm shifts in policymaking, it argues that we need to include other theories to draw on policies that go beyond Hirschman's suggestions of incremental policy change to overcome policy failures associated with *fracasomanía*.

The chapter is structured as follows. Following this introduction, section two reviews Hirschman's published work more generally and the *fracasomanía* concept in particular. The

section provides the foundation for the empirical and policy analysis in this chapter. Section three analyses the neoliberal policy shift through a fracasomanía lens and reviews how market-led policies had detrimental effects on productivity growth, inequalities, and state capacities. Section four looks at how four decades of neoliberal reform depleted state capacities to such an extent that governments were unable to respond adequately to the COVID-19 crisis. The section argues that the pandemic has made it clear that after consecutive four “lost decades” for Latin American economies, it is impossible to continue along the same, market-led policy path. Using the empirical insights of sections three and four and drawing on heterodox political economy theories, section five engages the main argument of this chapter. Rather than focussing on incremental policy change, Latin American policymakers need to dare to think about novel ways to achieve context-specific yet ground-breaking reforms that challenge the prevailing primacy of market-enhancing economic policies and implement development-oriented policies that can drive technological change and stimulate productivity growth. Section six concludes.

### ***Fracasomanía* and other ideas of policymaking: Hirschman’s concepts revisited**

As a close observer of development trajectories across many different Latin American case studies, Hirschman developed various theoretical, conceptual, and methodological ideas that not only help to understand development issues and obstacles to growth but can also guide policy ideas to achieve social and economic progress. Firmly emphasising local peculiarities and drawing from multidisciplinary approaches, Hirschman’s arguments on policymaking in Latin America arose inductively rather than trying to deductively understand features of policymaking. At the heart of his theory of development hence lies the problematisation of one-size-fits-all policy solutions. In the books *Journeys towards Progress* (1963) and *A Bias for Hope: Essays on Development and Latin America* (1971) Hirschman rejected assumptions prevalent in economic orthodoxy at that time, namely that technological backwardness or financial regulations were at the heart of development problems for Global South countries. While most mainstream economists stressed the need for uniform economic policies of removing technological bottlenecks and obstacles to financial integration, Hirschman questioned the helpfulness and pertinence of such universal approaches, which in the author’s view did not consider context specificity.

Hirschman’s work tried to go against the dominant, economic ideas and policy solutions that are universally accepted yet make little sense in context-specific cases. (Hirschman 1992). Latin American elites and policymakers, Hirschman criticised, tended to

look outside for policy ideas rather than focussing on endogenous and incremental policy changes. Contrasting this, in his quest to find policy solutions Hirschman first and foremostly turned his attention inwards and identified the main problems lie *within*. For the author, Latin American policymakers often fail to even grasp endogenous development potentials mainly because they are constantly looking outwards, trying to catch up with the technology and development frontiers of Global North countries rather than turning inwards for policy solutions to development obstacles. In Hirschman's mind, Latin American policymakers base the success of their policy paths on misconceived notions about development and progress. Combined with exaggerated potential benefits of one-size-fits-all policies, this misconception about potential success that is based on the benchmark set by the Global North fails to identify local particularities and necessities of change (Hirschman 1971).

He aimed to overcome these shortcomings of orthodox economic analysis by engaging in inductive theory building and context specific analysis of Latin America, its relationship with the United States, and the opportunities and difficulties of policy reform. In *Journeys towards Progress* (1963), which was composed of three long-term studies about policymaking and land reform in Brazil, Chile, and Colombia, Hirschman studied the opportunities and boundaries of policymaking by tackling development obstacles and in finding suitable policy paths for these contexts. His willingness to include interdisciplinary approaches and to draw on other social sciences are clearly evident in this volume. While being slightly optimistic about reformist change and development in the three cases, he also identified a common pitfall of policymaking across the different elites and intellectuals in Latin America. His frustrating experiences on the ground become clear in *Journeys towards Progress* (1963) where he coined the term *fracasomanía*. This describes the tendency of elites and new governments to believe and to proclaim that all efforts of the prior government have been a complete failure ("fracaso"), without being able to filter out those measures which might have been conducive to development and progress. Reflecting on this concept in some of his later work, Hirschman writes:

(o)ne of the principal patterns that emerged as a common feature of my three stories [Brazil, Chile, and Colombia] was the insistence on the part of each new set of policymakers to decry utter failure everything that had been done before... I coined the term "fracasomanía" or "failure complex" for this trait'

(Hirschman 1981, 155)

This then leads to the complete overhauling of general policies, which Hirschman again sees as the result of intellectual dependence on the "visiting economists", which he identifies in

intellectuals and policymakers who, “instead of scrutinizing carefully their country's experiences and the travail that has gone into various proposals and experiment” (Hirschman 1981, 156), look abroad for potential policy ideas and cures for development problems. This prevents policymakers to engage in cumulative learning from the development experience of their own territory (see Hirschman 1981). Besides the lack of learning, fracasomanía also leads to the misjudging of institutional capacities to change, which is reinforced by the desire of policymakers to search for quick, yet fundamental solutions for big development challenges. Hirschman argued that the focus on remedies to big challenges that extended beyond present institutional capacities of the contexts in which they were implemented ultimately leads to failures. Furthermore, fracasomanía is a symptom of complete mishandling of political situations, including the underestimation of organisational capacities and power of groups outside of the ruling coalition as well as the opposition's tendency to block all institutional change out of principle.

In summary, this complex to decry everything that proceeded as an utter failure emerges from and is reinforced by three interdependent dynamics. First, the difficulties of perceiving changes in the past and the conviction that any legislation ultimately remains only on paper induces the expectation of renewed policy failure. Secondly, the intellectual dependence of policymakers and intellectuals looking for policy inspiration from abroad leads each new policymaker to the belief that they need to start from scratch. And third, the opposition and partisan politics denying any success of the ruling coalition strengthens the other reasons for fracasomanía. These three dynamics render efforts for incremental policy changes futile and lead to policy failure.

In *A Bias for Hope* (1971), Hirschman followed up with a more positive and pragmatic approach to policymaking. He intended to overcome fracasomanía with what he called *possibilism*, which calls on thinkers and leaders to widen their perspectives of “what is or what is perceived to be possible, be it at the cost of lowering our ability, real or imaginary, to discern the probable” (Hirschman 2013, 22). Hirschman saw possibilism or “reform-mongering” as the antithesis to fracasomanía and as an approach to social and economic change that focusses on the unique rather than the general, the unexpected rather than the expected, and the possible rather than the probable (see Coser 1984). Reform-mongering or what he also called “efficient sequences” (see Hirschman 1984) argues for policymakers to identify a direction of a policy path that is most likely to eventually achieve certain objectives. These political economy sequences of what is possible under local circumstances also includes the indirect effects

policies have on inducing political changes that ultimately support reaching the objective the policies intended to achieve.

### **The neoliberal policy shift: Another round of *fracasomanía* or the start of pragmatic daring?**

Hirschman's more positive view on policymaking emerged in a context in which he felt much more optimistic about social, economic, and political progress in Latin America. As military dictatorships across the region came to an end and partial solutions for the debt crises across many countries were rolled out, Hirschman saw an "end of ideology". Adelman's (2013, 624) biography of Hirschman shares his enthusiasm:

Until about 1980 the heavy hand of structuralism and *fracasomanía* dominated perception and practice across the spectrum. Now, having delivered self-fulfilled legacies of deindustrialization, wasted oil-bonanzas, and inflation and debt all around, here was an opportunity to pull possibilities out of the wreckage.

(Adelman 2013, 624)

However, while the initial optimism about the emerging consensus on democracy might have been warranted, some observers see the shift away from structuralism and towards neoliberalism as yet another example of Latin America's elites' tendency towards *fracasomanía* (see Palma, 2011). Most economic reforms Latin American countries implemented in the 1980s that initiated the move towards free-market capitalism were radical reversals of any preceding state-led policies supporting import substituting industrialisation strategy (ISI). Economic reforms were hence undertaken in most countries as a result of a perceived weakness of the previous accumulation model that according to many policymakers and elites had led the region into a situation where everything needed to be rethought. As Palma (2012, 3) puts it, "there was an attitude of 'throwing in the towel' vis-à-vis the previous state-led import substituting industrialisation strategy."

In the wake of the debt crises and other economic disappointments that – in the view of Latin American elites – had been caused by the structuralist, state-led ISI strategy, economic reforms in the region ended up being mostly about the reversal of the previous development strategy. Hence, and in response to the end of the ISI development model, elites in Latin America started to reorganise the basic institutional setup of the dominant post-war institutional settlement. While acknowledging that neoliberalisation varied considerable across the Latin America, the striking similarities of reforms implemented across different countries allows to make general simplifications about the radical policy shift towards neoliberalism. During the

1980s and 1990s, most Latin American countries deployed a wide range of neoliberal policies that amongst other things implemented trade and financial liberalisation reforms, pushed through the privatisation of public assets and services, initiated fiscal austerity, deregulated state control over industry and flexibilised labour markets (see Franz 2018; 2019). In addition to the implementation of these “Washington Consensus” economic reforms (see Williamson 1990), the market-led policy agenda also involved the political, fiscal, and administrative restructuring of the state. From a fracasomanía perspective, it was not just the all-encompassing force with which neoliberal policies were violently implemented, but also the form in which the previous one was given up (see Grandin, 2011). The declaration of the former President of Brazil’s Central Bank Gustavo Franco aptly showcases the fracasomanía trait perfectly, as he claimed the main aim of neoliberal economic reform was “to undo forty years of stupidity” (see Veja, 1996 cited in Palma 2012, 4).

Besides the lack of policy path dependency that Hirschman emphasised as being important, neoliberal fracasomanía is also evident as most of elites and policymakers looked towards intellectual ideals and policy advice from outside. Driven by Washington-based institutions and implemented by Chicago-trained bureaucrats, the neoliberal reforms clearly went against Hirschman’s arguments of looking inwards. Furthermore, the implementation of the neoliberal policy blueprint contradicts Hirschman’s improvised policy approach in pursuit of multiple paths. Neoliberalism’s paradigm-based uniform solutions and the arrogance by which “visiting economists” argued that there is no alternative to neoliberalism further support Hirschman’s arguments about fracasomanía leading to universal policy dictates that are reduced from grand theory and generalised programs.

Empirically, the outcomes of the neoliberal policy change in Latin America have been rather disappointing. While between 1950 and 1980 Latin American economies grew on average by 5.5% annually, the region’s economies have persistently underperformed since the 1980s (see Ocampo and Ros 2011). While exports of commodities might have increased since the neoliberal turn, overall productivity rates declined drastically (see Palma 2011). This not only shows the apparent failure of exports to create sufficient backward linkages to the domestic economy, but also underlines the incapacity of the market-led growth model to create incentives and compulsions for capitalists to invest in high technology sectors (see Khan and Blankenburg 2009). The reforms of the 1980s has thus led to Latin America returning to a comparative advantage in exporting natural resources and in supplying unskilled labour, which has hindered or at least slowed down the climbing up of the productivity ladder (Khan and Blankenburg, 2009). The only capital-intensive industries are found in resource extraction and

processing. The rest of the domestic economies is marked by maquiladora labour regimes where low-productivity assembly activities are the norm (see Dutrénit and Katz 2005).

In reviewing evidence following the “violent, authoritarian transition away from an exhausted model of ISI,” Webber (2017, 283) finds that the negative growth and productivity outcomes of neoliberalism also had disastrous consequences for poverty and inequality. Across Latin America, poverty rates increased from 40.5% or 84 million people in 1980 to 44% or 220 million people in 2002. Inequality augmented in this period with the Gini index rising to 5.1, making the region the most unequal in the world. With real wages declining, employment elasticities increasing (a result of the neoliberal flexibilisation of labour markets), and social security programmes being slashed, the neoliberal reforms furthermore hampered aggregate demand and led to overall increase in private indebtedness (most harshly expressed the 2007-09 Global Financial Crisis, GFC).

Furthermore, the increasing gap between the ideologically stained promises of neoliberal reforms, and the gloomy material reality faced by most of the population proved to be a fertile ground for a variety of different social, economic, and political crises. While some of these materialised in political uprising of popular movements, such as in Argentina, Bolivia, and Ecuador, others had much more to do with systemic shortcomings of the neoliberal reforms in bringing growth and development.

Reflecting on Hirschman’s work, Grabel writes that

the chief lesson of the neoliberal era and the crises it induced is not just that it wrought extraordinary harm... [but also] placing just one policy and institutional complex at the center of global governance... prevents learning by doing since there’s only one principal doer, doing only one principal thing.

Grabel (2018, 177)

As neoliberalism was sold to provide one-size-fits-all solutions that would bring numerous benefits, it went directly against Hirschman’s arguments for learning from small scale examples and multiple policies that in a trial-and-error method would bring incremental change.

However, while recognising Hirschman’s distrust of experts, their reductionist sensibilities, and their generalised plans for all-encompassing change (see Hirschman, 1971; 1963), it is surprising to read his later views where after the first years of neoliberal policies he saw Latin America at the brink of a new period of “pragmatic daring” (Adelman 2013, 625). 40 years after the introduction of neoliberal reforms and following the GFC and the boom-and-bust commodity super cycle from 2002 to 2014, it is clear that Hirschman’s optimism, based

on his general possibilism approach, was misplaced. As the reoccurring crises that the neoliberal policy paradigm has produced have further reinforced intersectional inequalities, wage repression, economic insecurity, and multiple vulnerabilities, we need to see everything that preceded (i.e., the entire neoliberal era) as utter and complete failure. Not only have the empirical realities that neoliberalism birthed contributed to the recent rise of economic nationalism paired with an increase in misogynistic and xenophobic violence across the Americas. But the neoliberal era has also contributed to weakened public capacities where states were unable to respond to the various economic, social, and political demands of the COVID-19 pandemic.

### **The COVID-19 shock within the multiple vulnerabilities created by neoliberalism**

Four decades of neoliberal reforms has not only created disappointing growth and productivity outcomes as well as rising inequality in Latin America, but also left most states depleted from having sufficient governance and fiscal capacities to comprehensively face the COVID-19 crisis. As the pandemic laid bare the various fragilities globalised neoliberal capitalism has fostered in the name of market superiority, states were unable to respond to the multiple challenges the pandemic created for (exporting) industries, social services, and the health care sectors. Neoliberal reforms had promoted the disintegration of various public systems of provision, while at the same time undermining productive capacities of domestic firms. The focus on short-term profits and the lack of state capacities for planning had left Latin American countries without productive means to mobilise capital, labour, and industrial knowledge for economic and social progress. Neoliberalism, combined with the aftermath of the GFC and the 2000s commodity boom, had increased the dependency on capital, know-how, and demand for commodities from the Global North (see Ocampo and Ros, 2011).

Furthermore, during the first months of the pandemic it became quickly apparent that local health systems, undermined, disintegrated, and partly privatised by neoliberal reforms, were not able to cope. The dismantling of state capacities to meet public health objectives particularly affected the poor population in Latin America (see Martínez-Gómez and Parraguez-Camus 2021). When the pandemic hit, Latin America in general, and Chile, Colombia, and Peru in particular, had one the lowest numbers of hospital beds, intensive care units, and medical personnel per capita worldwide (see Gianella, Gideon and Romero 2021).

The working classes, impoverished throughout the neoliberal era, hence faced a double burden. While their precarious employment forced many of Latin America's poor to continue working thereby exposing themselves to greater risk of infection, they also lacked access to

affordable healthcare systems once they were infected with the SARS-CoV-2 virus. The COVID-19 pandemic highlighted in a stark way the different vulnerabilities of the poor to economic disruptions and health insecurities, both results of four decades of neoliberal policy reforms (see Saad-Filho 2020). As Stevano et al. (2021, 2) find the pandemic “had immediate implications for both everyday life and the processes of production, reproduction and consumption – locally and globally.”

While the pursuit of extractive export-led growth models of Latin American countries had created limitations to achieving economic diversification, neoliberal reforms only increased these structural deficiencies (see Ocampo and Ros 2011). Liberalisation reforms and the penetration of nearly all sectors of domestic economies by foreign capital (and particularly of the primary sector), had seriously undermined local capacities for fixed capital formation at home (see Levy and Bustamante 2019). The opening up of capital and current accounts hence increased the degree of dependency on foreign capital flows. Thus, aside from the immediate effects of the COVID-19 pandemic on health care systems and economies, most Latin American countries also suffered from a variety of different indirect consequences of the pandemic hitting after four decades of neoliberal reforms (Franz 2021). As capital flows dried up and commodity prices plummeted in the wake of the COVID-19 crisis, Latin American economies faced difficulties to roll out fiscal stimulus packages to mitigate the economic fallouts of the pandemic. In the medium term, this will not only worsen balance of payment crises but will also leave local companies scrambling for cash inflows (see IMF 2021).

While Hirschman’s arguments against focussing on structural issues in favour of finding policy solutions to each individual problem are laudable, it is important to point out that the historically weak position of Latin America’s economies in global capitalism is of systemic and structural in nature. In this context, and after 40 years of neoliberal reforms deepening the structurally weak positions of Latin American economies, the economic crisis caused by the COVID-19 pandemic hit the region particularly hard, as seen in the drastic slump in real GDP growth, fixed capital formation, and manufacturing growth rates. On average, the regional economies declined by 7% in 2020 with commodity-producing and tourism-dependent countries being hit the worst (see IMF, 2021).

The economic downturns of Latin American economies will further worsen fiscal balance sheets. Lower government revenue from taxes, commodity exports, and tourism, increased spending due to the economic and health crises, higher borrowing costs as a result of depreciated currencies, and overall difficulties to balance the current account deficits due to difficulties to accessing funding will dramatically increase public debt levels (Franz 2021).

Households and companies will also confront an increased debt burden, with many facing insolvency due to the augmented costs of debt servicing resulting from increased interest rates.

However, the COVID-19 pandemic and the various crises it has caused also revealed the potential for political change and showed ample opportunities for radical policy reforms. Hence, the question arises if we are yet again at the brink of fracasomanía? And if so, would a complete reversal of everything that preceded be really something as damaging as Hirschman indicated in his writings or is a reversal of everything that preceded a necessary step towards progress? By drawing on Marxist theories and heterodox political economy approaches, the next section aims to engage with these questions and provides policy ideas for Latin America to move beyond its current era riddled with policy failures.

### **Policies for change: The need to go beyond Hirschman**

One of Hirschman's main concerns was the deduction of policy recommendations from the close study of case studies "rather than from the attempt to deduce the characteristics of Latin American policymaking from history or culture" (Hirschman 1975, 394). While acknowledging the importance that interlinkages between politics and economics play in theory and policymaking, he insisted to "stay away...from any semblance of a general theory" (Hirschman 2013, 5) that is deducted from the historical evolution of the political economy or structures of a context he studied. Interestingly, in his later writings Hirschman critically reflected upon his own earlier thinking and his overlooking of the Marxist concept of historical change. He mentions this neglect of Marxist historical understanding of change was due to his focus on "processes that take place on a small scale as compared to the huge canvas on which Marx painted." (Hirschman 2013, 12). This let him to categorically favour small-scale and incremental policies over systemic and structural changes for which he had blamed regional policymakers' tendency for fracasomanía.

These later acknowledgments of the virtue of the Marxist historical materialist approach in understanding the interaction between economic and political factors for institutional change can help to move beyond Hirschman's earlier concepts, in particular his view on possibilism drawn from the analysis of fracasomanía. In his study of capitalism, Marx (1970 [1859]) pointed out that economies function within a historically evolved institutional and political framework. And that while economic forces by themselves might achieve some progress, they will eventually be held back by the politico-economic structure setting institutional boundaries to radical change. Once these boundaries are reached, it becomes increasingly difficult to achieve further development, as progress increasingly turns into a

“fetter” (Marx and Engels 1998). For Marx, it is this point at which institutional changes are imminent, whether it is pushed by the ruling classes wanting further capitalist advancement or subaltern classes that have a stake in radical changes to existing institutional frameworks. In Marx’s view, the diminishing returns on labour in form of wages and the continued super-exploitation of labour by capital will not lead to small incremental changes and improvements as Hirschman’s earlier writings would suggest. They will lead to revolutionary change (see Marx 1976 [1867]).

Using Marx’s understanding of the inherent contradictions of capitalism and drawing on heterodox political economy literature might help to go beyond Hirschman in our understanding of policymaking and institutional change. Khan (2010), for example, argues that the interdependent relationship between historically evolved power balances and the institutional arrangements not only has implications on economic efficiency but also on political stability via the distributive functions that institutions have. Hence, institutions are derived from a particular distribution of power, but in turn also distribute benefits to maintain that distribution of power. Any institutional change that would fundamentally go against the prevalent power balances would make the policy path unsustainable and would lead to crisis (see Khan 2009). While the policy implications of Khan’s (2010) “growth-stability trade off” also favour incremental change, the understanding of the interdependencies between historically evolved power balances and institutions can give insights into when and how elites might embark on a policy path that supports their relative powerful position. On the other hand, this also helps to understand power of opposition groups and their organisational capacity for resistance and political uprising.

In most Latin American contexts one can describe the power balance as oligarchic where landed elites have historically undermined state efforts to achieve industrial development that would go against their interests or challenge their powerful position (see Winters 2011; Khan and Blankenburg 2009). Resulting from Latin America’s colonial history as an exporter of natural resources, this relatively strong position of the landed oligarchy meant that land reform often did not happen or were only sporadically implemented, which had detrimental effects on industrial accumulation (Kay 2002). Furthermore, throughout the early twentieth century popular resistance to the oligarchic rule was quite weak, which, for Khan and Blankenburg was due to the power balances “Latin American inherited from colonial domination, which impeded, or at least slowed down, the evolution of a modern and professional state apparatus.” (Khan and Blankenburg 2009, 360). When Latin America’s industrialisation attempts failed to achieve desired outcomes, elites in Latin America started to

reorganise the basic institutional setup of the dominant institutional arrangement. As incomes from ISI policies dried up and elites were unable to access extra economic incomes in form of state-created rents, the oligarchic classes across the region overcame the contradictions of the failed push for industrialisation by radically altering the institutional setups of their societies. Combining the discussed Marxist theoretical insights and Hirschman's analysis of policymaking in the region, we can conclude that the shift to neoliberalism represents a fracasomanía as well as an institutional shift to maintain the historically evolved productive forces and power balances.

However, and different from Hirschman, this chapter argues that elites did not see the ISI period and its institutions as a development failure in and of themselves. Rather, the ISI growth model was not compatible with the dominant power balances that persisted in the region throughout the twentieth century. ISI policies failed to achieve positive outcomes partially because they did not distribute enough benefits to the landed oligarchy, which in turn led them to undermine state capacities for any serious attempts of industrial capital accumulation. When in the 1970s the increased external debt level, the augmenting capital flight, and the growing intensification of popular resistance threatened the dominant power of the landed oligarchy, elites were forced to restructure the entire societal structures and economic institutions to maintain dominant power balances stable.

As discussed, the economic and developmental outcomes of this policy shift have been very disappointing. And while the radical opening of capital accounts had little to no effects on the rate of capital accumulation, domestic elites used the reforms to transnationalise their assets and appropriate large amounts of the national income (see Robinson 2010). Hence, the main effect of the neoliberal paradigm shift was an increased appropriation of capital and a deepening of inequal power distribution within the region or as Palma (2011, 51) puts it “neoliberalism may well have become the most effective technology of power ever.” This appropriation of large proportions of the national income has furthermore weakened state capacities and undermined any efforts to achieve economic diversification, as the top decile of Latin America's income earners only invest a fraction of their income into domestic economies (see Palma 2011). This has made Latin America even more vulnerable to external shocks or international policy changes than most other regions in the Global South.

The enormous economic and social fallouts of these recent crises – the GFC, the bust of the 2000s commodity boom, and the COVID-19 crisis – has sparked a discussion over the need to rethink economic policymaking, to respond to these historical challenges. Stevano et al. point out,

the COVID-19 crisis has revealed the possibilities of political action and radical policy change and shed a new light on the role of the state. After decades marked by the neoliberal ideology that views the state as a mere fixer of market failures, the COVID-19 pandemic has made it impossible to downplay the active role that the state plays in capitalism.

(Stevano et al. 2021, 2)

Policy tools to fundamentally rethink the failing growth model of the past 40 years will have to take into account approaches that are founded on heterodox, pluralist and interdisciplinary schools of thought that provide alternatives to the prevailing market-led economic model (see Bárcena Ibarra and Prado 2016).

For Latin American countries this implies the need for daring, novel ways to think about context-specific yet ground-breaking reforms that question the prevailing primacy of market-enhancing economic policies. Reforms need to target the strengthening of governance capacities for states to play a far more active role in economic policymaking. This goes beyond being mere fixers of market failures. The role of the state needs to be one of a creator of markets and a director of policy change that includes fiscal measures to drive diversification of domestic economies, support learning-by-doing of high-productivity activities, and stimulate aggregate demand which needs to include wage increases and a strengthening of social services. And while Hirschman's insights can certainly help to inform the policymaking in many ways – especially in the rejection of “one best way” policies – his call for reform-mongering will not be sufficient for driving the necessary changes (Dosman 2017).

## **Conclusion and ways forward**

By reviewing Hirschman's contributions to policymaking in Latin America, this chapter showed that the fracasomanía concept can be helpful in the understanding of how discontinuous policy paths can lead to development failures. Hirschman's work gives useful insights into how the rejection of “one best way” reform prescription in favour of context-specific policies can inform policymaking in Latin American economies. However, this chapter also pointed towards some of the limitations of Hirschman's work for the analysis of contemporary development trends in the region, particularly given how recent crises and the increasing economic uncertainties revealed the limitations of the dominant market-led economic policy paradigm.

By looking at the negative effects of neoliberal policies on social and economic progress as well as on state capacities to respond to the COVID-19 pandemic, this chapter found that in the current context we need to go beyond Hirschman's policy analysis. While the

shift to neoliberalism in the 1980s certainly represents a fracasomanía, it is also crucial to understand the institutional shift as a tool to maintain the historically evolved productive forces and power balances. However, after four decades of neoliberal ideology in which policies had systematically depleted state capacities in the name of the free market, the COVID-19 pandemic has made it clear that it is impossible to continue along the same, market-led policy path. Radical instead of incremental change is needed for Latin American countries to achieve social and economic progress. Starting with the rediscovery of fiscal levers, which in the wake of neoliberal reforms had been completely neglected policy tools, we can already see states (re-)taking the realm in economic policymaking.

The impact of the current crisis, the severe boundaries of neoliberal policy responses, and the increasing economic uncertainties and vulnerabilities of Latin American economies showcase that the dominant ideological paradigm and economic policies looking for remedies of market failures have run their course. This is evident in the incapacity of market-led policies to stimulate productivity growth, to ensure decent wages, to stabilise financial markets, and to decrease existing unequal income distributions. Development-oriented policies where state interventions actively create conditions for productivity-enhancing change within firms and entire economies are needed. This includes a strategy to transform existing production structure and develop new ones that focus on technological change to stimulate productivity growth. A closer integration of Latin American markets and a clear approach to use natural resource incomes for the diversification of the economy can lead to growth and increased productivity rates, particularly of the manufacturing sector.

These shifts would overcome obstacles that have long hindered or slowed down progress towards overcoming the fragilities of the current strategy, as well as guaranteeing wage growth and stimulating aggregate demand. To achieve these goals requires the overhauling of the existing policy landscape and we need to call on policymakers to implement structural reforms and drastic institutional changes rather than small changes along an incremental policy path. The current crisis more than ever has shown the need for radical change. And it is o policymakers to declare the market-led strategies of the past 40 years as fracaso and to dare far-reaching and growth-enhancing policies.

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