In the 1980s and 1990s, market reforms swept the world. It is widely believed that the reformist wave can be partly explained in terms of the lessons learned from policy failures of the past. Although this interpretation of events is well established, it has never been empirically proved. *Learning, Policy Making, and Market Reforms* is the first study that tests the impact of policy learning on economic policy choices across time and space. The study supports the popular explanation that, on average, governments around the world adopted privatization and trade liberalization, and sustained open capital accounts, as a result of learning from the experience of others.

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Learning, Policy Making, and Market Reforms

COVADONGA MESEGUER

Center for Research and Teaching in Economics (CIDE), Mexico City
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## List of Abbreviations

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BoP</td>
<td>Balance of Payments</td>
</tr>
<tr>
<td>CODESA</td>
<td>Corporación para el Desarrollo de Costa Rica</td>
</tr>
<tr>
<td>ECLAC</td>
<td>Economic Commission for Latin America and the Caribbean</td>
</tr>
<tr>
<td>EMU</td>
<td>European Monetary Union</td>
</tr>
<tr>
<td>EO</td>
<td>Export Orientation</td>
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<tr>
<td>ERM</td>
<td>Exchange Rate Mechanism</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FDP</td>
<td>Freedom Democratic Party</td>
</tr>
<tr>
<td>GATT/WTO</td>
<td>General Agreement on Tariffs and Trade/World Trade Organization</td>
</tr>
<tr>
<td>IFIs</td>
<td>International Financial Institutions</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IOs</td>
<td>International Organizations</td>
</tr>
<tr>
<td>ISI</td>
<td>Import Substitution Industrialization</td>
</tr>
<tr>
<td>LDCs</td>
<td>Less Developed Countries</td>
</tr>
<tr>
<td>MNCs</td>
<td>Multinational Corporations</td>
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<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NICs</td>
<td>New Industrialized Countries</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PLN</td>
<td>Partido de Liberación Nacional</td>
</tr>
<tr>
<td>PRI</td>
<td>Partido Revolucionario Institucional</td>
</tr>
<tr>
<td>PSD</td>
<td>Partido Social Demócrata (Social Democratic Party)</td>
</tr>
<tr>
<td>SOEs</td>
<td>State-Owned Enterprises</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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Acknowledgments

This is a book about learning from the experience of others: changing economic policy choices and adopting those that “work.” It concentrates on the policy choices of developing and transitional countries and, in particular, on the change of economic paradigm that took place in the mid-1980s and 1990s and that gave a prominent role to markets – as opposed to the state – in economic development. Standard explanations of this change attribute an important role to learning from failed past experiences. Yet, this hypothesis remains untested. How much of the wave of economic policy reforms can be accounted for in terms of learning from others? Learning from normal times or learning from extraordinary times? Learning from neighbors or learning from any relevant experience, no matter how distant? And learning rationally or mindlessly imitating others? As this study shows, learning – especially from bad times – was part of the explanation of trade liberalization and privatization. But rational learning falls short of fully explaining these and other reforms surveyed in this study. If learning from the experience of others was not the only (and often not the most important) driver of liberalization, what other factors account for it? And with what consequences for the “quality” of policymaking? These are the important questions that I address in this study.

At the time of writing, and in the midst of deep financial turmoil originating in the United States, the main source of liberal economic ideas, the questions posed in this book seem both pertinent and urgent: What lessons will be learned from the crisis (and its interventionist solution), and by whom? Will the state be attributed new and more
prominent roles in the belief that markets also fail? On this occasion, will learning flow from the South to the North – that is, will the United States and the developed world in general learn the lessons that developing countries so painfully learned in the late 1990s? Will the systemic financial crisis entail a break with the economic paradigm that has dominated public affairs since the mid 1980s? Finally, which lessons will developing countries learn from these events? Will those lessons imply a backlash against the pace of reforms as disappointment feeds on reform fatigue? These questions are central; yet their answers depend on the perceived existence or otherwise of a workable alternative to the current economic paradigm. In search of that alternative paradigm or a new incarnation of the existing one, the failed past experiences in development should be kept, again, carefully in mind.

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Para mis padres, Carmen y Joaquín.