# Lecture 5
# The Washington Consensus and US Leadership

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In 1989 John Williamson, a senior researcher at the Institute for International Economics in Washington, organized a conference to evaluate to what extent Latin American countries had adjusted their economies as a way to solve the debt trap.

In order to determine whether the countries in his study had seriously tried to "adjust" their economies, Williamson made the effort to define "economic adjustment." He would then use the word "adjustment" as synonymous of "policy reform" in his background paper entitled "What Washington means by policy reform." In that paper, he tried to explain Washington's economic recipe for Latin America. The term "Washington" was understood as the IMF, the World Bank and the US Executive Branch, although in a broader definition of the term, it would also include the IADB, congresspersons interested in Latin America and Washington think tanks doing research on Latin America's economic policies.

The proceedings of that conference were published afterwards in a book edited by John Williamson. The book clearly reflects the economic policy package that was gaining consensus. Macroeconomic prudence, economic openness, competition and market transparency were almost unchallenged ingredients of the economic recipe. It is also clear from the reading of the book, that most of that package was no less than the "Latin American Consensus" as revealed by the measures many decision-makers had been adopting in the region.

## The Latin American Consensus

This "Latin American Consensus" had been the result of the reflection of national leaders and researchers on the experiences and interests of their own countries. By no means was it a Washington's imposition. This is the position endorsed by Enrique Iglesias in his article "From Policy Consensus to Renewed Economic Growth," Sebastian Edwards in his book: Crisis and Reform in Latin America. From Despair to Hope, and Daniel Yerguin in: The Commanding Heights.

The ingredients of the "Washington Consensus" that did not reflect the "Latin American Consensus" produced heated debate and ended up causing what Moises Naim calls "Washington Confusion." For instance, the "debt-equity-swaps" -a mechanism to induce private investment- was explicitly rejected by most Latin American countries. Similarly, decisions regarding the opening up of the Capital Account of the Balance of Payments, which relates directly to the interest rate and the exchange rate regime,

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should only be made taking into account the particular economic context in each country and not following a general formula.

It is my conviction that the so-called "Washington Consensus" is irrelevant to understand the economic reforms that took place in Latin America. What matters is the "Latin American Consensus". Notwithstanding, I also contend that Washington played a key role in relation to Latin American economic reforms, in particular from 1989-2000, yet from a different perspective. Simply put, the key was Washington support to the reforms undertaken by the governments in the region.

**Washington support was required and welcomed by LA leaders**

Since the debt crisis in 1982, many Latin American leaders had been asking Washington to adopt a leadership position in relation to LA. US leadership at the end of the 1980s and early 1990s translated into three key decisions adopted by the Bush 41 Administration. Firstly, the joint work of the USTR and the Cairns Group in order to include Agriculture in the Uruguay Round of the GATT; secondly, the Brady Plan, which allowed Latin American countries to restructure their debts obtaining reductions in principal and interests; and thirdly, the Initiative for the Americas, which led to NAFTA.

Most Latin American leaders from different political parties, including myself, welcomed this change of Washington politics in relation to Latin America. We even drew a parallel between this new American approach to LA and the Marshall Plan, which the US launched after WWII to rebuild Europe. We also thought that it was a smart coordination with Japan's initiative called "Miyasawa Plan."

None of us interpreted those initiatives as a way to impose any particular economic package or "adjustment" required by Washington. On the contrary, we were proud that the economic reforms under way had been designed and implemented domestically, and were a clear and eloquent response to stagflation and hyperinflation.

The IMF, the World Bank and the IADB helped sometimes to solve problems and sometimes made mistakes. Nonetheless, they seldom imposed programs that had not been first designed domestically, at least in those countries that undertook economic reforms.

The standard picture that shows Latin American leaders deciding economic reforms imposed by Washington, as if they were Washington's puppets, is not realistic.

Bush 41 and Clinton's Administrations support to the economic reforms undertaken in Latin America mainly meant facilitating commercial and financial integration of LA economies to the global economy. Such a policy continued to be positively evaluated by most Latin American leaders, even in the aftermath of the Mexican and Brazilian crises of 1995 and 1999, respectively.

**Why after Argentina's crisis in 2001-2002 the opposite opinion seems to prevail?**

Rodrik offers one possible explanation in his paper "Feasible Globalization." According to Rodrik, Argentina made the greatest effort to globalize its economy. He considers that in order to adopt the purest neo-liberal model possible, it gave up its ability to adopt institutional innovations based on domestic needs and knowledge. So, Rodrik's argument goes, if a conflict arises between the demands from the foreign creditors and the needs of the Argentine people, the second would prevail. In a democracy, this would naturally lead to the abandonment of the neo-liberal model. US support is seen as one of the main reasons why Argentina adopted the neo-liberal model. Therefore, Argentina's failure is used as a way to demonstrate the negative effects of Bush 41 and Clinton Administrations decision to support LA countries from 1989 to 2000.

Yet, I have a different explanation. In 2001, several concurrent situations jeopardized Argentina's possibilities to overcome its financial problems. Let me explain. Argentina was embarked in a process of debt restructuring; however, US leadership to generate international support for this process was completely absent. At the same time, the IMF decided to use Argentina as a sort of case study in relation to a "moral hazard" problem that according to them would exist in international financial markets.

The combination of these situations led to the total destruction of the economic organization built during the 1990s and what is worse the Argentine People had to bear a cost three or four times higher than what would have been, had the rules of the game in place been kept and the orderly restructuring of the debt been completed.

Populist leaders who organized the riots to oust a democratically elected government adopted the measures demanded by large highly indebted private sector pressure groups, which allowed them to significantly decrease the real value of their debts. In exchange, these groups would give their support, I mean, economic support and support in the media. However, to save face when they realized the terrible suffering of the ordinary people they caused, those leaders needed scapegoats. They, hence, blamed the decision makers who preceded them, and their supposedly foreign bosses: the US Government, the IMF and the international bankers.

Alternative views and a more detailed discussion of what happened will be addressed in the coming classes on Mexico, Brazil and Argentina's crises. Before talking about those crises we need to analyze Argentina's experience up to 1998.

**A short digression on Globalization and Institutional Convergence**

I contend that it is not accurate to think of "Globalization" as a US creation designed to impose the institutions and interests of Anglo-Saxon Capitalism on less developed countries. On the contrary, I find the explanation offered by Marina Whitman in his recent article "American Capitalism and Global Convergence" most enlightening.

She contends that globalization is leading to a systemic convergence that includes not only the emerging economies but also in particular American-style Investors Capitalism, German-style Social Capitalism, and Japan-style Mercantilist Capitalism.

If this process is taking place in the developed world, we could expect no less in the less developed countries, which are making great efforts to find in the globalization process new opportunities to emerge from underdevelopment and backwardness.

However, it is not the same to say that there is a process of convergence, to say that such a process is the outcome of an explicit decision made by leaders of the Global Economy trying to impose conditions on emerging economies. I also contend that convergence does not mean that LDCs should import Anglo-Saxon Capitalism institutions. As a matter of fact, in some cases is the other way around. There are some institutional innovations decided and implemented in some emerging economies that are now being studied and adopted not only by other emerging economies but also by more developed countries. An example will illustrate my point; Chile's "Unidad de Fomento" (unit of development) is a predecessor of the Indexed Units of Account to which Robert J. Schiller refers in Chapter 15 of his book entitled <u>The New Financial Order. Risk in the 21st Century</u>.

**Looking for Alternatives**

In the short description of our course included in the Syllabus we mention that we would discuss alternatives to the Washington Consensus. Today we are starting that discussion, so we better set the terms of that endeavor.

Are we looking for universal alternatives to Global Capitalism? Do we want to reedit the 20th Century long discussion on Socialism versus Capitalism as universal social systems? I think the answer is No.

Are we looking for local alternatives to US-style Capitalism? Do we want to engage in Michael Albert's Capitalism versus Capitalism discussion? Again, my answer is No.

We will discuss alternatives to what? Roberto says that he is proposing a universal alternative to the Washington Consensus or the so-called neo-liberal paradigm. I cannot engage in a discussion on universal alternatives to the Washington Consensus because I do not consider the Washington Consensus as a relevant and accurate description of a Social System Paradigm. It would be like looking for alternatives to a ghost, and I think none of us wants to become Ghostbusters.

I think that Roberto is looking for an alternative to the Latin American Capitalism as reshaped by the Latin American Consensus of the eighties and nineties and USA support during the Bus h 41 and Clinton's Administrations. But the more I read his papers, the more I listen to his presentations and the more I think on his points, I come to the conclusion that he wants to make Latin American Capitalism more inclusive. Hopefully, most inclusive! That makes me very happy, because if that is so, then we at least share our goals!

Now, the key question is: Should we adopt a revolutionary attitude or an evolutionary one? Should we implement a new complete overhaul of the rules of the game, as the Latin American Consensus of the eighties and nineties did, or should we work to improve those rules of the game whenever they are incomplete or mistaken?