THE WASHINGTON CONSENSUS IN LATIN AMERICA

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Summary

Washington consensus policies evolved over time, both in Washington and among Latin American policymakers. These policies, involving trade liberalization and privatization (among other measures), were widely adopted in the region by the early 1990s. A generation of scholarly work sought to explain how and why Latin American countries embarked on economic reforms that governments had strongly resisted in the past. While many researchers focused on the top-down nature of the market liberalization process, others called attention to its pluralist character and argued that the process had considerable public support. When the original Consensus ideas proved ineffective in promoting growth and improved living standards, technocratic Washington added new policies. By the early 2000s, Washington’s goal became that of reducing poverty while ensuring the completion of the original Washington Consensus reforms. In Latin America,
however, there was a growing disillusionment with the original reform agenda and a strong challenge to key reforms. With the rise of social mobilization critical of neoliberal reforms and the election of left regimes challenging their main precepts, scholarship turned to a discussion of the nature of the new regimes and the extent to which their policies deviated from the Washington Consensus (both its original formulation and the later expanded version). While most scholars identify the left leaders of Ecuador, Bolivia, and particularly Venezuela, as offering the greatest challenges to neoliberalism, there is no consensus on the extent of the challenge to neoliberalism presented by Latin America’s left regimes. Research has also given attention to the rising demand of China for Latin American commodities as a key ingredient in the region’s left turn away from neoliberalism. The fall in commodity prices, however, set the stage for a resurgence of the political right, its business supporters, and the re-introduction of some key aspects of the original Washington Consensus.

**Keywords:** Latin America, Latin American politics, neoliberalism, market liberalization, market reform, resource dependence, pink tide

**The Trajectory of the Washington Consensus**

This paper traces the trajectory of the Washington Consensus in Latin America. One of the difficulties in doing so is that the term Washington Consensus is one whose meaning has evolved over time. The expression was originally formulated to identify a specific set of market liberalizing policies supported and propagated by political and technocratic Washington—a policy group that includes the International Financial Institutions (IFIs), particularly the World Bank and the International Monetary Fund (IMF), economic agencies of the U.S. government, the U.S. Federal Reserve Board, and Washington-based think tanks. However, the expression came to encompass a considerably broader range of policies. This discussion uses the term
Washington Consensus interchangeably with neoliberalism. Critics have infused both terms with assumptions about Washington’s rigid ideological adherence to market fundamentalism.

Through the 1980s, Latin American governments and civil society resisted market liberalization; then eventually supported it with varying degrees of enthusiasm. By the early 2000s, governments faced powerful domestic opposition leading to significant, though not fundamental, alterations in policy direction. Despite what many observers believe to be some major changes, Washington Consensus policies remain resolutely resilient in the region, a reality reflective of the evolution of Washington Consensus ideas, the impact of reforms on domestic power structures, and the structural realities of the global economy. I begin by identifying the original Washington Consensus policies and then discuss the way the Consensus evolved in official Washington thinking through the 1990s. The following sections explore the debates regarding how and why market liberalizing policy prescriptions took hold in the region and the rise to power of left regimes that challenged neoliberalism. I identify two shortcomings in much of the scholarly literature. One is the general failure to recognize the early and strong popular resistance to the original Washington consensus policies; the other is a general neglect of the way in which neoliberal restructuring increased the power of domestic business interests. This latter development has contributed to the re-emergence of some of the original Washington Consensus policies.

The Evolution of Washington Consensus Policies in Washington

The term Washington consensus originated in a paper prepared by economist John Williamson in 1989. In this work, Williamson listed ten policies he felt were being implemented widely in Latin America at the time and about which he felt there was a reasonable degree of consensus in Washington (Williamson, 1990). The original list included fiscal discipline, the
redirected public spending away from (indiscriminate) subsidies toward spending on health and education, tax reform directed at broadening the tax base with a moderate marginal tax rate, market-determined and positive interest rates, a competitive exchange rate to encourage exports, trade liberalization, liberalization of foreign direct investment regimes, privatization, and, deregulation. Deregulation included, among other items, the establishment of property rights, the elimination of price controls, and restrictions on the remittance of profits. Washington Consensus ideas reflected a turn to neoclassical economic thinking and a rejection of the Keynesian interventionist principles that had dominated the pre-war period. The overriding objective was to roll back the state and strengthen the role of the market.

The new policy direction gained momentum with the election of Ronald Reagan as U.S. president in 1979 and Margaret Thatcher as British Prime Minister in 1980. The international debt crisis of the early 1980s gave the World Bank and the IMF the opportunity to press Washington Consensus policies on highly indebted Latin American countries. With growing expenditure needs and the availability of loans from international banks through the 1970s, Latin American countries, particularly the largest ones (Brazil, Argentina, and Mexico), had incurred substantial foreign debts. When commodity prices declined, and interest rates began to rise in the early 1980s, economic conditions worsened. The Mexican decision to stop payments on its foreign debt triggered panic among the private banks, which refused new lending and the re-negotiation of old loans, sending Latin American economies into a downward spiral. Faced with balance of payments crises, country after country signed Stabilization Agreements with the IMF, followed (from the mid-1980s) by Structural Adjustment Agreements with the World Bank.

Since these loan arrangements involved country officials agreeing to Washington Consensus policy conditions in exchange for loans, some observers have identified policy
conditionality, particularly from 1989 when the Brady Plan offered debt relief in exchange for prior commitment to reforms, as playing a role in the durability of what was understood as politically unpopular reforms (Remmer, 1998, p. 22; Ramamurti 1992, pp. 164-165). Others, however, have suggested that IFI influence on policy reform emanated from other, more subtle activities, such as the IFI’s role in the transfer of policy ideas to country officials during years of policy discussions or by means of support for country officials already predisposed to reform (Kahler, 1992, p. 123; Nelson, 1992, p. 314).

As growth and prosperity failed to materialize through the 1980s, Washington policy elites supplemented the original policy list with a recommendation for financial opening to attract foreign savings to spur economic growth (Berr, 2007). The results, however, were disappointing. Between 1991 and 2002, the GDP of the region grew at only .9 percent per year while during the 1970s, it had grown at the rate of 3.2 percent (Bresser-Pereira & Varela, 2004-5). High interest rates, designed to attract the inflow of capital, combined with overvalued exchange rates (likely linked to the high capital inflows), contributed to the contraction of domestic savings and investment and stagnation in economic growth. Some observers maintained that liberalization of the capital account was responsible for increased economic volatility and financial crises (Stiglitz, 2000).

The glory days of the original Washington consensus (from about 1990 to approximately the late 1990s) were short-lived. Economic stagnation, repeated financial crises (Mexico in 1994/5, Brazil in 1999, and Argentina 2001), and rising inequality constituted mounting evidence of the inadequacies of Washington Consensus policies. Several prominent mainstream economists raised criticisms, suggesting that official thinking had disregarded issues of poverty, inequality, and the need for state intervention to mitigate market imperfections. However,
increasingly vociferous Latin American civil society criticisms of IFI polices was also important in driving change in official thinking. Claims that economic reforms had been implemented in an exclusionary fashion and had contributed to social deprivation were important in pushing the World Bank towards a stronger focus on poverty reduction, support for expanding social expenditures, a concern for increased civil society participation in Bank projects, and support for debt relief for highly indebted poor countries.

This re-thinking produced an Augmented Washington Consensus (also referred to as the Post-Washington Consensus, Second Generation Reforms, and Inclusive Neoliberalism). The World Bank placed special emphasis on spending on health and education, part of the original consensus but lost sight of due to the pressure to reduce Latin American government spending to facilitate payments on debt (Kapur, Lewis, & Webb, 1997, p. 607). An additional ingredient was social programs targeted to the poorest citizens. The IFIs also gave increased attention to labor flexibilization (only mentioned in passing in the original list), claiming that revision of labor codes making it easier to hire and fire would increase investment and employment expansion. Privatization moved into calls for careful regulation of privatized companies and for social security privatization. Institution building, and decentralization were added to the agenda. Civil society participation became especially important to the World Bank as it served the dual purpose of ensuring country ownership (support for) the original and augmented policy agenda while responding to civil society demands for involvement in policy development.

Through the 1990s, the World Bank quickly developed organizational mechanisms to facilitate civil society consultation giving rise to research focusing on these efforts in Latin America, much of it criticizing the selective and shallow nature of consultations (Acuña & Tuozzo, 2000; Teichman, 2007). By the late 1990s the Bank and the IMF had developed a
program to simultaneously compel the poorest countries of the region to complete reforms from the original list, while encouraging civil society participation and policies to reduce poverty. The Heavily Indebted Poor Countries Initiative (HIPC), launched by the World Bank and IMF in 1996, and broadened in 1999, provided debt relief to the world’s poorest countries under certain conditions. In addition to having completed an IMF supervised program involving the standard Washington Consensus policies, countries were required to develop a poverty reduction strategy (Poverty Reduction Strategy Papers, PRSP) in consultation with civil society. Three Latin American countries participated in this program: Bolivia, Nicaragua, and Honduras.

The HIPC initiative was successful in encouraging Nicaragua and Honduras to carry out policies that had been stymied by political opposition, an outcome suggestive of the coercive nature of IFI participation in policy reform in the region’s poorest countries. Induced by the pressing necessity of debt relief, Nicaraguan and Honduran politicians agreed to the privatization of public utilities, policies that had been fiercely and successfully resisted in the past. In addition, in accordance with IFI’s predilection for highly targeted social programs (particularly conditional cash transfer programs) poverty reduction strategies made these the center piece of poverty reduction. Dissatisfied with the IFI consultative process, civil society organizations carried out parallel consultation processes producing documents that were sharply critical of their exclusion from the discussion of macroeconomic policy and critical of privatization of public utilities (Ruckert, 2010, p. 128).

Resistance to market liberalization was a hallmark of the market reform process in the region from its inception. Intense political struggles shaped the specific nature of reform outcomes with implications for reform sustainability.

Market Liberalization: From Resistance to Acceptance
Politics and Resistance to Market Reforms

Prior to the debt crisis of the early 1980s, the IMF signed Standby Agreements, involving devaluation, restrictions on public expenditures, credit and wages, the removal of restrictions on foreign investment, and occasionally the reduction of trade protection, with several Latin American countries, including Chile and Argentina (Marshall S., Mardones S., & Marshall L., 1983, pp. 279-284). However, fierce political resistance, particularly from labor, meant that countries failed to adhere to these policies for any length of time. The case of Chile was an exception. In 1975 a particularly draconian version of market reform was implemented by the military regime of Augusto Pinochet. A number of policies were classic Washington Consensus prescriptions: trade liberalization, privatization, and capital account liberalization. However, there were important deviations from the Washington Consensus formula. During a military dictatorship widely associated with free market policies, the state in fact played an important role in supporting expansion into new export activities (Kurtz, 2001, pp. 5, 7) and it retained ownership of CODELCO, the country’s biggest copper producer and an important foreign exchange earner. The unity of the military and its control by Pinochet along with the ability and willingness of the regime to support a group of highly committed market reform technocrats, were essential ingredients in accounting for the rapid and extensive nature of reform. The nationalist bent of the military accounts for the fact that privatization excluded the state-owned copper company while the survival of statist bureaucrats explains state policies in support of new exports (Teichman, 2001, p. 76). The repressive nature of the regime, which was able to demobilize labor resistance, was central to bringing about labor flexibilization and social security reform—reforms that were not contemplated until well into the 1990s elsewhere in the region. In Argentina, under military rule between 1976 and 1983, the government carried out some market
liberalizing reforms but progress was erratic. With stiff opposition from nationalists within the military and with the greater relative strength of the labor movement, privatization was minimal, and tariff reduction was highly selective. Both privatization and tariff reform avoided any impact on state-owned companies engaged in the production of military-related material and in areas of interest to the military such as transportation, cement, and steel (Dornbusch and de Pablo, 1990, 123; Manzetti, 1991, p. 131).

In the wake of transitions to democracy in the early to mid-1980s, market liberalization was fiercely resisted. Not only had market liberalization become associated with military governments, but new democracies faced rising expectations for improvements in living standards. Governments therefore rejected the orthodox prescriptions recommended by the IFIs in favor of heterodox programs involving a mixture of orthodox and state-interventionist policies. Administrations pursing heterodox programs included that of Raúl Alfonsín (Argentina, 1983-1989), who combined wage and price freezes with tariff reductions and public enterprise restructuring. Heterodox programs were also pursued by Peru’s Alan García (1985-90), Bolivian President Hernán Siles Zuazo (1982-85), and Brazil’s President José Sarney (1985-1989). All of these heterodox programs failed.

\textit{Overcoming Resistance: Scholarly Debates}

Hence, even though the debt crisis placed market reform on the agenda, Washington Consensus policies would not “stick” until the 1990s. This history of resistance to neoliberal policy reform, followed by its eventual adoption, resulted in the emergence of a large body of scholarly research explaining why countries finally succumbed to market liberalization. The literature is loosely divided between those who focus on the authoritarian/top-down, even coercive aspect of the process, and those who highlight the fact that most reforms were carried
forward under electoral democracies in contexts in which public opinion was won over to the new reform program. Further, while there is general scholarly agreement on what factors played a role in bringing about adherence to Washington Consensus dictates, there is little consensus on their relative importance.

Some regard the economic crises that occurred in the wake of failed heterodox programs, particularly high inflation, as important, even essential, in triggering policy change due to its ability to break down both elite and public resistance to reform and facilitate the centralization of power (Armijo & Faucher, 2002; Weyland, 2001). Hyperinflation preceded the implementation of market liberalizing reforms in most cases: it reached over 300 percent in Chile in 1975, over 8000 percent in Bolivia in 1985, over 1000 percent in Argentina and Brazil in 1990, and over 7000 percent in Peru in 1990. According to this argument, the depth of economic crises produced a strong incentive among leaderships to implement policy reforms because all alternatives had been exhausted. Meanwhile, the population, even in contexts where most people had voted against market reform candidates, were persuaded that there was no other option.

While some viewed this development as an integral part of the democratic process, others took a more skeptical position, focusing on Latin America’s authoritarian legacies, such as its long tradition of personalistic leadership, a feature that afforded leaders with loyal supporters and the authority to override institutional arrangements. Hence, leaders with charismatic populist appeal and personally loyal support bases, such as Carlos Menem in Argentina, Alberto Fujimori in Peru, and Andrés Pérez in Venezuela, ran for election on vague populist platforms opposed to market liberalization. However, once elected and faced with economic crises, they adopted market liberalization programs. A critical view (Oxhorn and Ducatenzeiler, 1999) sees these leaders as having misled the public while an alternative perspective takes a more sympathetic
stand, arguing that strong loyalty simply translated into trust in leaders, who violated campaign promises in a sincere pursuit of good outcomes (Stokes, 2001).

Once securing executive power, market reform presidents, faced with resistance from their legislatures, often used constitutionally sanctioned presidential decree powers (powers intended for emergency situations) to avoid the protracted process of securing approval for market reforms (Geddes, 1994; Haggard and Kaufman, 1995). Market reforms were passed by presidential decree in Ecuador, Argentina, and Bolivia. Bolivian President Paz Estenssoro also declared a ninety day “state of siege/emergency” which suspended constitutional guarantees and gave the President the power to use the military to repress protesters (Conaghan, 1994, p. 258). In 1992, Peruvian President Alberto Fujimori engaged in a “self-coup” in which he closed congress, assumed dictatorial powers, and passed market reform legislation.

Another important body of literature focusing on the top-down nature of the process stresses the importance of insulating policymakers from societal interests, particularly those who would oppose the reform, particularly the organized working and middle classes, who had received generous wage and benefit settlements in the past. Hence, this perspective characterized successful market reform countries as cases in which authority had been heavily centralized and “insulated” from political pressures (Cavarozzi, Nelson, and Urrutia, 1992, p. 18; Haggard & Webb, 1994, p. 14; Morales, 1996, p. 16; Nelson, 1992, p. 111). One analysis concludes that Latin American market liberalizing regimes were democratic in name only and involved the “political exclusion” of all potential sources of opposition (Contreras Osorio 2003, 53). A common, and ultimately mistaken belief was that a reform process involving this type of policy insulation would produce an outcome benefitting the unorganized and less-well of part of the population.
In successful cases of market reform, researchers also argued that policy insulation was effectively bolstered by the installation of a highly committed and cohesive teams of market reform technocrats. These individuals with graduate degrees, often from U.S. universities in subjects such as economics, were central actors in policy reform (Conaghan and Malloy, 1994, pp. 145-148; Williamson & Haggard, 1994). Rising to predominance within state bureaucracies, technocrats, when allied with politicians who were considered personalist leaders and political outsiders (Carlos Menem in Argentina and Alberto Fujimori in Peru), could become a formidable force for market liberalizing policy change (Panizza, 2013, p. 90; Teichman, 2001, p. 114). A final top-down exclusionary aspect of the market reform process was the fact that market reform politicians and technocrats secured their countries’ business support by ensuring that already powerful businesses were the biggest beneficiaries of the market reform process. Domestic businesses were given favorable terms in the purchase public companies (Schamis, 1999, p. 265) and they were provided tax and other advantages to support their expansion into export markets (Teichman 2001, 144-146). In this way, as market reform progressed, a powerful new class of exporters became strong supporters of the new economic policy direction (Díaz, 1997, p. 45; Przeworski, 1991, p. 142).

Others, however, characterize the process of policy reform as a more pluralistic process. Biglaiser and DeRouen (2004), for example, found that the presence of party fragmentation with its attendant ideological and political polarization, gave opposition parties the opportunity to impede reform progress even in contexts of economic crisis. Successful reform also involved political leaders cultivating support from ruling party members in ways that won over resisters. According to Corrales (2002), the failure to cultivate and win over support from party members was instrumental in the acrimonious relationship between the Action Democratic Party (AD) and
the executive and the collapse of the market reform program in Venezuela. Meanwhile, the leadership’s cultivation of the Peronist party helps account for the success of achieving reform in Argentina.

Others point out that market reformers engaged in coalition building, taking measures to secure support from potential opposition groups. Carlos Menem, for example, won over labor leaders by providing them with government appointments and by providing targeted wage increases. The Argentine government also offered employees of privatized companies the opportunity to purchase shares in privatized companies at subsidized prices (Murillo, 2001, p. 486). Political leaders provided various types of compensation, in the form of subsides and guaranteed market shares, to industrialists threatened by trade liberalization (Etchemendy 2011). Some scholars maintain that there was considerable popular support for market liberalizing policies, especially among lower socio-economic groups, due to the fact that stabilization policies reduced high inflation rates that were harmed the poor the most. Armijo and Faucher (2002) point out that 10 of 14 elections brought avowed market reformers to power (pp. 27, 29). In Costa Rica, El Salvador and Nicaragua, Spalding cites opinion surveys that showed over 70 percent of the population supported market reforms during the 1990s, as assistance from the U.S. flowed in and economic growth resumed (2014, pp. 42, 45, 52).

Whether one saw the process as having been a top down one, or one with generally widespread public support, most scholarship assumed that market reforms would remain firmly entrenched because the power of past opponents, particularly trade unions, had been reduced and/or coopted during the years of liberalization. Civil society was no longer seen as a threat to the new economic direction because it had become deeply fragmented. It was unlikely, therefore, that popular groups would coalesce around opposition to market reform (Kurtz 2004, 134;
Oxhorn and Ducatenzeiler 1999, 31). This perspective underestimated the ongoing fierce resistance of popular organizations to neoliberal reform, an issue addressed in the next section.

While virtually all countries had embarked on market liberalization programs, there were differences in the depth and extensiveness of reform achievements. Trade and financial liberalization generally went forward as did tax reforms involving an expansion of value added taxation, a reduction in taxation on company profits, and tax incentives in mining, forestry, and tourism. Privatization of public companies, especially in energy, was the area where there was the greatest variation. Nationalist opposition stalled full privatization of Bolivia’s state oil company and kept oil companies in state hands in Venezuela and Mexico. In Venezuela, Uruguay and Mexico electricity was not privatized (Lora, 2001, pp. 15-18). By the late 1990s, little was accomplished in the area of formal changes in labor codes to produce greater flexibility in hiring and firing, although there was substantial de facto flexibilization in Mexico and Bolivia (Cook 2007, p. 193). The area where there has been the greatest political resistance, particularly privatization, would re-emerge as a salient issue in the 2000s.

The Origins and Development of Post-Neoliberalism

The Social and Global Economic Context

By the early 2000s, market liberalization came under fierce challenges with the expansion of anti-neoliberal social mobilization and the eventual rise to power of left leaders with explicit anti neoliberal agendas. In 1998, Hugo Chavez, whose reform agenda became increasingly radical, was elected president. His election was followed by a series of left victories in Brazil, 2002, Argentina, 2003, Uruguay, 2004, Bolivia, 2005, Chile, 2006, Ecuador 2007, Nicaragua, 2007, Honduras, 2007, and El Salvador in 2009. A number of these anti-neoliberal governments were re-elected: Luiz Inácio Lula da Silva in Brazil in 2006, Raphael Correa in

For many observers, who had anticipated the consolidation of neoliberal reforms, this was an unexpected development. In hindsight, however, the rise in opposition to market reform is not difficult to understand. The short-term pain of these reforms was more severe than originally anticipated and the expected gains did not materialize. Poverty increased from 26.7 percent of the population to 31 percent between 1980 and 1989 for the region as a whole (Psacharopoulos et al., 1995, p. 246). The massive layoffs of the 1980s resulted in the decline of formal employment and an expansion of the informal sector as employment generation lagged. Moreover, poverty reduction stagnated during the 1990s and was subject to reversals when economic crises hit. In the view of Chilean economist, Ricardo Ffrench-Davis (2005), neoliberal fundamentalism, with its preoccupation with financial liberalization and indiscriminate trade liberalization, had produced unsatisfactory results both in terms of economic growth and equity.

While the 1998 Latinobarómetro survey found that 64 percent of Latin Americans agreed that the “market economy” was best for the country, public support for market liberalization, particularly privatization, was probably thinner than originally recognized. The 1995 survey shows that a majority of Latin Americans believed that health services (71 percent), pensions (68 percent), telephone services (52 percent), petroleum (63 percent) and water (64 percent) should be in the majority hands of the state while the 2006 survey indicates a strong preference for
significant state involvement in the market since a majority (55.8 percent) of Latin Americans believe the state must be a major actor in the production of wealth (Corporación Latinobarómetro, 1995, 1998, 2006). Furthermore, while opposition to neoliberal reform gained momentum from the late 1990s and increasingly became the subject of scholarly concern, popular mobilization was, in fact, a constant feature of the politics of market reform from the mid-1980s—a reality ignored by those (largely English-language) scholars who concluded that a new market consensus had emerged.

A collection of case studies documents this intense, early, and widespread resistance to neoliberal reform in the region (Rojas Villagra, 2015). In Bolivia, for example, labor organizations vigorously protested the tough economic reform program introduced in 1985 and continued to resist through the 1980s. Organized labor was joined during the following years by new groups of actors (coca growers, peasants, and indigenous organizations) who took over leadership of the resistance, even as the labor movement was weakened by massive layoffs (Chaplin, 2010). After 1990, indigenous and popular resistance in Ecuador and Bolivia expanded. In 1989, in Venezuela widespread protests (known as the Caracazo) against economic reforms occurred. In Argentina, the Piquetero movement of unemployed workers, many laid off due to economic restructuring, led protests in Argentina from the mid-1990s. Strikes and worker demonstrations against public enterprise restructurings and privatizations were widespread in Mexico through the 1980s and into the 1990s.

However, it was not just popular resistance that made it possible for left regimes to rise to power and address the social deficit. A fundamental change in the global economy—the rise of China as a major player—created the conditions that facilitated the ability of these regimes to address issues of social deprivation. The increased demand emanating from China for resource
commodities was instrumental in stimulating economic growth and the revenue that enabled left
governments to improve welfare. China has become the region’s second highest export market.
Between 2000 and 2013, Latin America’s trade with China rose 27 percent (Grugel and
Riggirozzi, 2018, p. 8). In seven Latin American countries, China surpassed the United States as
the main destination for exports (Naylor, 2017).

Many Latin American countries have become highly natural resource dependent: over 90
percent of the exports of Bolivia, Ecuador, and Venezuela are natural resources, while over 60
percent of the value of exports from Brazil, Chile, Argentina, Colombia, Paraguay, Peru, and
Uruguay are some combination of fuel, minerals, and agricultural products (Ocampo, 2017). 4
Indeed, the centrality of the commodity boom to post-neoliberalism and the role of China in
facilitating increased investment and spending has prompted the term “Commodity Consensus”
and even “Beijing Consensus” to describe this phase of Latin American development—this latter
a nod to the growing importance of the state’s role and the fact that the more radical versions of
post-neoliberalism in the region have sometimes played fast and loose with liberal democracy
and human rights, as I discuss in the next section. 5

Debates and Issues in Post-Neoliberalism

A substantial body of scholarly literature addresses the differences among the left anti-
neoliberal regimes that came to power in the 2000s. In three cases where left parties opposed to
market reforms during the heyday of neoliberal reform, were elected, and remained true to their
original campaign promises to mitigate what they viewed to be the worst inadequacies of market
policies (Chile, Uruguay and Brazil), party system stability remained intact and the new regimes
were generally moderate in their anti-neoliberal stances. In three cases where left populist
leaders opposed market reforms and then supported these reforms once elected, new anti-system
leaders and movements arose, and traditional party systems declined. These regimes were radical in their opposition to market policies. Venezuela, Ecuador, and Bolivia have been the most widely discussed cases in this category. In Argentina, however, the Peronist party discarded its earlier pro market reform stance, returned to its populist left roots, advocated a strong anti-neoliberal stance, and was elected. In Costa Rica, the party system remained intact and no anti-system party rose to power even though the traditional left party had made a sharp turn to neoliberal policies. That party was returned to power, but it did mitigate its earlier pro neo-liberal stance.\(^6\) In Nicaragua, FSLN (Sandinista) leader Daniel Ortega, who is usually placed in the category of radical anti-neoliberal left leaders, was elected. However, neither Ortega nor the FSLN were new, his party having languished in opposition for some twenty years.

There has been substantial concern about the increasingly authoritarian features of the most radical post-neoliberal regimes. In those cases where traditional party systems collapsed, social movements were initially the driving forces behind the emergence of new leaders and movements and their rise to power. However, despite claims by leaders that their regimes opened new avenues for participatory democracy, top down control of participatory channels appears to have become the norm except for Bolivia, where the leadership has remained responsive to its social movement base (Balderacchi, 2015). Some argue that all of the radical anti-neoliberal regimes, with Venezuela under Chavez as the worst offender, have taken a marked authoritarian direction through such tactics as the use of constituent assemblies to perpetuate leaders in office, restrictions on the opposition, the weakening of institutional checks on power, and control of the media (Weyland, 2013; Sanchez-Sibony, 2013).

Judgements about the extent of deviation from Washington Consensus prescriptions, have generally reflected the radical/moderate categorization in political orientation noted above.
Castañeda (2006) identifies two “good” and “bad” species of left regimes. One is a reconstructed left (Uruguay, Chile and to a lesser extent, Brazil), which is respectful of the operation of liberal democracy and concerned with improving human welfare through increased spending on social programs; the other is a left with populist roots (Venezuela, Bolivia, and Argentina), which is harmful to Latin America because of lack of concern for economic performance and democratic values. Levitsky and Roberts (2011) present us with four categories of left regimes based on the extent of power concentration and party institutionalization (Levitsky and Roberts, 2011, p. 12) that separates out Bolivia because of the strong social movement base of the Morales regime, and Argentina under Kirchner and Nicaragua under the FSLN as populist machine regimes.¹⁷

The distinction between moderate and radical regime categories suggests that the policies of the radical anti-neoliberal regimes must have deviated significantly more from Washington Consensus prescriptions than did the more moderate ones. However, there is little scholarly agreement on this point, particularly given that these regimes emerged when the Augmented Consensus was in full swing. According to one survey of the literature on post-neoliberalism in the region, there is no agreement on the meaning of the post-neoliberalism nor on whether there has been any meaningful departure from Washington Consensus policies on the part of any of these left regimes (except for Venezuela). At best, the only commonality among them is their commitment to break away in some form from the earlier neoliberal policy prescriptions (Ruckert, MacDonald and Proulx, 2017).

Nevertheless, there were some important differences in the extent to which neoliberal policies were challenged, particularly in the area of privatization. The cases generally considered to be the most radical, Bolivia, Ecuador and Venezuela, rhetorically promoted nationalizations of natural resource activities. However, it was only in Venezuela and Argentina where
nationalization meant actual state ownership of production—a clear reversal of one central Washington Consensus dictate. Chavez expanded the role of Venezuela’s state oil company and went on to have the state take over steel, electricity, and telecommunications. Other nationalizations included a rice mill owned by the U.S. food company Cargill, and fertilizer and agricultural supply companies. In 2008, President of Argentina, Christiana Fernández de Kirchner, re-nationalized the airlines Aerolíneas Argentinas and in 2012, the formerly state-owned petroleum company, with the central government acquiring 51 percent of the shares and the provinces the remaining 49 percent. However, while President Evo Morales (Bolivia) turned over all gas and oil reserves being exploited by foreign investors to the state company, this move did not involve expropriation. Private companies were allowed to continue exploitation if they agreed to service contracts involving higher royalties and taxes. In a similar move in Ecuador, President Correa replaced production sharing agreements with foreign oil companies with a flat fee in exchange for the service of extracting, thereby ensuring that the state would reap all of the benefits of any price increase. Hence, in neither Bolivia nor Ecuador did nationalization mean actual state take-over of companies; rather, foreign companies could participate under arrangements that would maximize state revenue from resource exploitation.

There were many policy similarities among radical and moderate left regime policies—points of commonality that generally coincide with the Augmented Washington Consensus. There was a commitment to trade liberalization and while most rejected the Free Trade Agreement of the Americas (FTAA), a proposed agreement involving Latin America and the Caribbean (excluding Cuba) and the U.S., they pursued regional trade agreements. An exception was Argentina, which re-imposed import restrictions. All these regimes shared the objective of reducing poverty and inequality, problems largely addressed through increased social spending
in health, education, new programs providing health coverage and pensions to cover informal sector workers, and programs targeted to the poorest and most excluded. While cash transfer programs originated with neoliberal regimes, they became key instruments of poverty reduction under post-neoliberalism in all cases. However, targeted social spending, particularly conditional cash transfer programs, also became the centerpieces of poverty alleviation in center/right regimes, such as Peru, Colombia and Mexico (Nagels, 2016; Rawlings, 2005).

Another similarity among left post-neoliberal regimes identified in some accounts is the observation that left regimes did a much better job at maintaining macroeconomic stability than had pre-1980 left populist regimes, a commitment attributed to “lessons learned” from past macroeconomic crises (Grugel and Riggirozzi, 2018; Heinrich and Tussie, 2009). Between 2003 and 2007, for example, Argentine Peronist president Nestor Kirchner was able to maintain a fiscal and trade surplus and to reduce unemployment. Brazil’s President Lula, during his first term in office (2003-2006), managed the country’s fiscal and trade accounts well. Both increased spending on social programs.

In a departure from pre-1980s practices, increased social spending was supported by increased taxation, not by the printing of money or by acquiring debt as had occurred during the import substitution phase. While a few countries were able to carry out some tax reform, reducing taxes on the poor, and increasing taxes on personal wealth and unearned income (Grugel and Riggirozzi, 2018, p.7), most revenue for these expanded social programs came from increased taxes on commodity export earnings. Hence, leaders became deeply committed to resource extraction as necessary for social improvement and saw it as opening the way for structural transformation (Arsel, Hogenboom, & Pellegrini, 2016). Arguably, this strategy fit
within the Washington Consensus given the Word Bank’s support for resource extraction to increase revenue to reduce poverty.

A final commonality among left regimes, particularly among the most radical ones, and an issue related to their dependence on commodity exports, was the sharp conflicts they experienced with their private sectors. The rise of market liberalization, and the consequent growth in importance of the role of private investment would normally create a strong imperative to maintain business confidence, essential to sustain economic growth and employment. However, for countries whose economic growth was sustained by strong demand for commodities, business reaction could be discounted to some extent and radical anti-business rhetoric and policies stepped up as long as resources from commodity exports flowed in. The most serious case of conflict with the private sector was that of Venezuela where the private sector was more unified and political polarization has been extreme, contributing to the depth of the economic crisis (Chiasson-LeBel, 2016). The Bolivian and Ecuadorian regimes experienced conflict with their private sectors especially during the initial years in office (Wolff, 2016). At the other end of the spectrum, Chile under the left/center coalition, the Concertación (later the New Majority) maintained generally co-operative arrangements with its private sector. Brazil’s at times tense relations with its powerful private sector during the administrations of left Presidents Luiz Inácio Lula da Silva and Dilma Rousseff was sustained through generous government contracts along with financial support to the country’s most powerful companies to expand into export markets.

Dependence on revenue from commodity exports generated other sources of political conflict, calling into question both the democratic and inclusionary claims of the most radical left regimes. Both Bolivia (under Evo Morales) and Ecuador (under Raphael Correa) instituted
constitutional reform guaranteeing indigenous groups prior consultation on resource
development and territorial rights (Kennemore & Weeks, 2011). However, there has remained a
notable gap between the aspirations set forth in constitutions and the reality on the ground, with
rising resistance of indigenous communities to various resource development projects, resulting
in violent clashes and the imprisonment of activists (Lalander, 2016). Nevertheless, despite such
problematic features, these left regimes did reduce poverty significantly and made inroads into
the reduction of high levels of inequality (McLeod & Lustig, 2011, p. 6).

The Decline of Commodity Prices and the Resiliency of Neoliberalism

With the decline of commodity prices, fiscal deficits rose as commodity revenues
decreased and governments continued to spend. The policy of expanding spending when growth
and tax revenues are flush runs counter to Washington Consensus (neo-orthodox prescriptions)
insofar as this perspective views pro cyclical government spending as contrary to stabilization.
The prudent course for a commodity dependent exporter, according to the World Bank, is to save
during the boom to compensate for loses during bad times as Chile did through allocating
commodity windfalls to its Economic and Social Stabilization Fund. However, Bolivia under
Evo Morales, also maintained a fiscal surplus until 2014 and saved part of the revenue obtained
from its commodity boom.

For the region, the median public deficit reached 5.2 percent of GDP in 2015. Brazil,
with a public deficit of 10.2 percent of GDP, and Argentina at 7.4% of GDP, have been the worst
offenders (OECD/IDB, 2017, 1; World Bank, 2017, pp. 5, 21, 46). In Brazil, the economy shrunk
by over 3.5 percent in 2015 and 2016 while in Argentina GDP growth declined by over 2.5
percent (World Bank Indicators). Job creation and social spending has dropped in some cases
and there are doubts as to whether it can be maintained in others. Poverty reduction in the region has stagnated.

Not surprisingly, the region has witnessed a decline in the fortunes of the Left as right-center politicians have experienced recent successes at the polls. Right wing presidents were elected in Chile (2010 and 2017) and Argentina (2015), while the political right-center gained executive power in Brazil with the impeachment of left president Dilma Rousseff. This development was followed by the election of right populist, Jair Bolsonaro as president of Brazil in 2018. Bolivian President Evo Morales lost a referendum to allow him a fourth term as president in 2016. While recent research suggests that Latin America’s right turn is likely to leave social protection, particularly cash transfer programs (key components of the Augmented Washington Consensus) in place to protect the most vulnerable in tuck (Niedzwiecki and Pribble, 2017), there is some anecdotal evidence that spending on these programs is threatened.

Hence, with the resurgence of the political right, Washington Consensus prescriptions, which remained strongly supported by business throughout the period of left rule, have resurfaced. Market liberalization had signaled an increase in economic concentration as domestic business interests, often in alliance with multinational corporations, bought up public companies and moved aggressively into export markets. The drop in commodity prices enhanced the structural power of capital increasing the state’s reliance on domestic and foreign investment in other segments of the economy as the sources of economic growth and tax revenue. The increased power of business during neoliberal and left regime years and its strong commitment to the original Washington consensus policies, went largely unobserved by most scholars, who devoted much greater attention to popular mobilization and the nature and policies of left regimes. An exception is Serna and Botinelli (2017) who present evidence on the surge in the
numbers of entrepreneurs obtaining formal positions of power within the state, particularly cabinet level appointments, from the 1980s on. They observe that the rise of the political left, in some cases, did little to abate even this increased formal political power.

Hence, in Brazil, for example, during the period of Labor Party rule, the political right and the business community continued to call for privatization, further deregulation, labor flexibilization, and a reduction in corporate taxes. Upon taking power in 2016, Brazil’s President, Michel Temer, developed plans to privatize the state-owned electricity company, airports and other sectors, to deregulate the state petroleum company, and to further open the economy to international trade and investment. He also planned to reform the labor laws to achieve greater labor flexibilization and to carry out pension reform. However, fierce political resistance may well mitigate the extent the Brazilian right is able to achieve such reforms. Argentine President Mauricio Macri, elected in 2015, re-introduced a number of the original Washington Consensus policies. He removed restrictions on agricultural exports and eliminated import restrictions and foreign exchange controls and initiated the reduction of subsidies on basic public services, eliminated export duties, and reformed the labor code to reduce the costs to employers. In June of 2018, the Macri government signed an agreement with the IMF in which his government promised to accelerate the reduction of the country’s public deficit but both the IMF and the Argentine government claim that social programs for the poor will not be touched. Nevertheless, there have been mass protests in Argentina against this agreement. Ecuador, which remains ruled by the political left, has also re-embraced some key Washington consensus principles in its efforts to adjust to the drop in commodity prices by encouraging private sector investment. President Lenín Moreno, Raphael Correa’s successor, plans to boost the Ecuadorian economy through promoting foreign investment and reducing spending and indebtedness,
improving the efficiency of tax collection, and reducing taxes. His political opponents claim that a recent law passed by the government, which substantially reduces taxes on businesses, decreases the funds available for social spending.

Conclusions

Washington consensus policies evolved over time, both in Washington and among Latin American policymakers. When the original Consensus ideas proved ineffective in promoting growth and improved living standards, additional policies were added with the objectives of achieving these ends. For technocratic Washington, the goal was to reduce poverty while ensuring the completion of the original Washington Consensus reforms. In Latin America, however, there was growing disillusionment with the original reform agenda and a rise to power of leaders committed to challenging that agenda.

While much of the scholarly work on the market reform process from the mid-1980s through the 1990s points to the top-down nature of the process, there are also those who focus on popular support for market reform and its pluralistic aspects. There is a tendency to ignore the ongoing resistance to market reforms during the 1980s and 1990s; this resistance became apparent by the early 2000s and marked the prelude to the rise to power of a series of left leaders who challenged the original Washington Consensus prescriptions. There is also an inclination to overlook the implications of the profound change in power structures that market reform ushered in. Relatively few scholarly works give attention to the increased political power of the big exporters who became essential actors in the market model—without such a recognition it is more difficult to account for the resiliency and resurgence of both the political right and original Washington Consensus policies.
There is little scholarly consensus on the extent to which left regimes deviated from the Washington Consensus during the post-neoliberal period from 1998 to 2011/13. A solid case can be made that, with the exception of Venezuela, deviation from the Consensus was not substantial. While Bolivia, Ecuador, and particularly Venezuela, are often characterized as the most radical regimes, Argentina probably deviated from the Washington Consensus more than did Bolivia or Ecuador. While all left regimes (radical and moderate) have engaged in increased social spending to reduce poverty, this policy direction fits very squarely within the Augmented Washington Consensus. There are few cases where policies marked a clear departure from Washington Consensus dictates: the nationalization of private companies in Venezuela and Argentina, and Argentina’s brief incursion into trade restrictions are the few examples where this occurred. More research is needed on the impact of the fall in commodity prices, particularly the link to political unrest, the resurgence of the political right, and the return to the original Washington Consensus policies. Available evidence suggests that while left regimes proved effective at spending commodity windfalls in ways that reduced poverty, their ability to manage those windfalls in sustainable ways, such as through saving part of the surplus and investment in economic diversification, was generally lacking, thereby contributing to the resurgence of business power and the political right.

Scholars have considered the important change in the global economy occasioned by the rising importance of China in Latin America as a key ingredient in the left turn away from neoliberalism. China’s increased demand for resource commodities was instrumental in stimulating the economic growth and providing the resources that made increased social spending and poverty reduction possible. Trade with China also provided some brief insulation from opposition forces—business and the political right. The fall in commodity prices, however,
set the stage for a resurgence of the political right, its business supporters, and the re-introduction of some key aspects of the original Washington Consensus that had been abandoned by left leaders. At the same time, popular resistance to these policies, which has remained stubbornly resilient, continues, raising the specter of sharpening political polarization.

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Notes

1 These included Joseph Stiglitz, Nancy Birdsall, and Dani Rodrik.

2 These programs involve the transfer of small sums of money to the female heads of extremely poor households in return for as keeping children in school and taking them regularly for health check-ups.

3 From 1984, the government pursued a more pragmatic market reform program.
Eight Latin American countries now import more from China than they do from the United States. The rise in manufactured imports from China has weakened manufacturing in the region.

Mexico and Central America, in contrast with most South American countries, did not achieve high rates of commodity export-driven growth during the post-neoliberal period. The nationalistic terms of the Mexican constitution (only altered in 2013) prevented foreign investment in the petroleum industry, thereby inhibiting resource-driven economic growth and the revenues that come with it. With a center right government, Mexico did not backtrack on market reform. However, it did expand support for the poor (part of the Augmented Washington Consensus) through its conditional cash transfer program and introduced social support for workers in the informal sector and for the elderly.

However, an important feature of the Costa Rican case was that its original market reform program had avoided key Washington Consensus recommendations, such as privatizations of the state-run social security system, telecommunications, and energy (Spalding, 2014, 201).

Brazil, Uruguay, and Brazil are the institutionalized partisan left, while Venezuela under Chavez and Ecuador under Raphael Correa, are categorized as the new populist personalist left.

An exception was the case of Nicaragua, where social programs went forward despite poor economic performance due to President Ortega’s alliance with Chavez and generous Venezuelan aid (Spalding, 2014, p. 216).

Brazil has faced an ongoing and deep political crisis as well. Recession, rising inflation, and increased unemployment hit Brazil in 2014. Dilma Rousseff, who followed Lula in the Brazilian presidency in 2011, saw her approval ratings plummet as widespread protests against the government gained momentum. Meanwhile, accused of violation of budgetary laws, Rousseff was impeached and removed from power in a process that has been described in some quarters as
a “congressional coup.” Michel Temer, a senior figure in the Center/Right Democratic Movement Party took over the presidency.