



**“New Directions for Latin America?
A Survey of Post-Washington Consensus Thinking”**

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Introduction

This paper surveys current thinking about questions of growth, poverty and inequality in what has become defined as the post-Washington Consensus era. It highlights the emerging convergence among the region’s alter-globalizationists, multilaterals and academics around the importance of integrating social and economic development agendas, and finding more inclusive and fair ways to manage economic activity, including trade. What stands out amidst these various streams of thought is an increasing awareness of the economic, political and social costs of inequality, coupled with limited gains in redressing the equity gap in the past two decades. High levels of inequality in Latin America have not only reduced growth rates and the benefits of growth on development, but have fuelled political instability and disenchantment with democratic governance. In reviewing the evolution of these debates and areas of convergence, this survey provides the underpinnings of current discussions on inequality, explored in greater depth in FOCAL’s Policy Paper “**The Achilles’ Heel of Latin America: The State of the Debate in Inequality**” (FPP-04-5).

Anti / alter movements

‘Anti-’ and ‘alternative’ globalization movements broadly refer to loosely knit networks of local, national and transnational social movements, citizen organizations, intellectuals and political parties, which come together in their shared opposition to economic globalization and the structures that govern it. The opposition ranges from a radical rejection of economic globalization and the capitalist system underpinning it, to more moderate criticism of the way liberalization is being carried out. Their proposals entail a democratization of the global system, from the reform of the World Trade Organization and the creation of a World Parliament, to the dismantling of international financial

institutions in their present form. Currently, the key venue for these ideas is the World Social Forum (WSF), an annual meeting to “...debate alternative means to building a globalization in solidarity...grounded in democratic international systems and institutions at the service of social justice, equality and the sovereignty of peoples.”¹

Significant segments of the ‘anti-globalization’ movement have moved away from outright rejection of the model, towards criticism of the way liberalization is implemented and regulated—arguing for the modifications that would better service poverty alleviation, inequality,

¹ See World Social Forum website at <http://www.forumsocialmundial.org.br>.

exclusion and social development. OXFAM offers a clear example of this approach with its *Make Trade Fair* movement, based on the premise that international trade can potentially reduce poverty but that the current rules that govern it are biased against this, to the disproportionate disadvantage of the poorest sectors. They emphasize what has become common currency in international development and financial institutions: that trade must be ultimately directed towards sustainable development and poverty reduction. Towards this end, many alter-globalizationists advocate, the adaptation of IFI rules and regulations to the specific needs of poor countries, greater policy and reform flexibility, greater voice, better anti-dumping legislation, and rights of domestic governments to pursue pro-development, pro-equity trade policies.

Critical Former 'Insiders'

The need to modify the global economic system to better address poverty and inequality is echoed by many prominent former 'insiders' from international financial institutions as well as leading economists, including Joseph Stiglitz, former Chair of Clinton's Council of Economic Advisors and former Chief Economist at the World Bank. In *Globalization and its Discontents* (2003), Stiglitz acknowledges the benefits of globalization but finds that despite increases in world income, anticipated economic benefits in terms of alleviating inequity and poverty have not transpired.

He, and other 'former insiders' (such as William Easterly, former Sr. Advisor with the World Bank, and Robert Reich, Former Labour Secretary in the Clinton Administration) focus criticism on the institutions that govern global economics, particularly the International Monetary Fund (IMF). Reforms commonly prescribed by these institutions over the past two decades—privatization, liberalization, and deregulation—are seen

as having been imposed at a generic fast-pace, without taking into account particular national contexts, access to information, or whether the necessary pre-conditions for liberalization to take hold are in place, with dire social and economic consequences. The destruction of viable domestic industries, vulnerability to erratic market shifts, and the failure of reforms to address social needs, jeopardizing their political sustainability are cited as some of the repercussions of untimely reform.

Leading academics make similar points. Both Daniel Rodrik (Harvard University) and Gerry Helleiner (University of Toronto) consider the global economy as under-governed, and see a disconnect between international financial institutions' and development agendas. Rodrik argues against generic institutional reforms for economic growth, finding that diverse institutional arrangements evolved in particular domestic contexts respond differently to single-model economics. He points out that the countries that transitioned to high rates of growth such as Chile, India, Brazil and Mexico, did so using a relatively narrow range of policy changes and institutional reforms, combining some aspects of orthodox economics with "unconventional institutional innovations" (capital controls in Chile for example). Overall what emerges is a consensus among former 'insiders' that without social safety nets and regulations in place, markets are destined to lose legitimacy, as they will be unable to meet developing country needs.

The Latin American Alternative

Some of these earlier debates were foreshadowed in the region by what was then known as "Alternativa Latinoamericana". It referred to a development model conceived for Latin American countries in the late 1990s and put forward by a virtual policy group of Latin intellectuals and politicians led by Roberto Mangabeira Unger, a renowned Brazilian professor at Harvard Law

School, and Jorge Castañeda, former Minister of Foreign Affairs of Mexico. Participants included a number of politicians who have since become presidents of their countries, including Brazil's Luiz Inácio Lula da Silva, Mexico's Vicente Fox, Chile's Ricardo Lagos, and former president of Argentina Fernando de la Rúa. The alternative model proposed by this group accepts the market economy, global economic integration, free trade, and privatization of state companies—all central pillars of the Washington Consensus—but calls for new policy directions to achieve sustained economic growth, link the poor to national and global economies, and deepen democratic participation.

The central tenets of the model include broadening the tax base and increasing taxes, regulating short-term foreign capital flows, and increasing domestic savings to reduce dependency on those flows. On the political front, Latin American Alternative argued for giving presidents and congress the power to call a new election for both executive and legislative branches when reform was blocked.

A basic underpinning of the model is an increase in taxes and tax collection so that state revenues top 30 percent of gross domestic product (GDP). Currently, tax collection in Latin America averages 12 percent of GDP; and no country in the world has been capable of generating social equilibrium with government spending below 30 percent of GDP, according to the Latin American Alternative. The increase in revenue would come from raising taxes on consumption, known as value-added tax. Social spending that would redistribute income and opportunities would compensate for the tax hike to all consumers. To combat social inequities, state spending would guarantee universal access to quality education, and would provide medical care and meals to all children.

It is essential, they argued, that the basic package of social rights remains de-linked from employment—so as not to reinforce existing inequalities—financed increasingly from the central tax system and not through payroll taxes that erode company competitiveness and widen the gap between those who hold stable jobs and vast segments of unemployed or informally employed.

Such long-term development strategy would need to be sustained by an alliance of the centre and the left, replacing the alliance of the centre and the right, which in countries like Argentina, Peru, Ecuador, and Brazil backed the conservative economic reforms of the 1990s. Several of the original members of Latin American Alternative succeeded in being elected and implementing some of the policies advocated by the group. The Chilean experience under the presidency of Ricardo Lagos is probably the most successful illustration of how a centre-left coalition carried through economic and social reforms, raising the living standards of the population in the process. Luiz Inácio da Silva is poised to become the next success story of Alternativa Latinoamericana.

The Third, Fourth and Canadian 'Way'

The basic thrust of the Third Way, as championed by British author and academic Anthony Giddens (*The Third Way: the renewal of social democracy*, 1997), is an argument to marry conservative and progressive policies and to balance the energy of capitalism with the need to foster social solidarity and civic values. Third way proponents acknowledge that the old model of state intervention in the economy was bureaucratic and ineffective and that many on the Left have been blind to the limitations of the state. They see the role of the state as enabler, rather than provider, and believe that social justice can only be accomplished within a successful economy, and a successful

economy within a just society. "*The Third Way accepts the basic framework of neoliberalism, especially as concerns the global marketplace...the third way takes globalization as given. Crucially, it fails to contest inequalities of income, wealth and power*" (A. Giddens, "The Third Way and its critics").

The Third Way became a philosophical claim that brought the left-left back into government across the world, reaching its pinnacle in the late 1990s. Governments in the United Kingdom, the United States, Holland, France, Germany, Denmark, Canada, Brazil, Chile, and Argentina have all claimed to be, in some ways, Third Way. On economic policy, the priority of Third Way governments has been macroeconomic stability brought about by balanced budgets and reduced national debt. Poverty reduction has been a key aim and it was mostly sought through increased employment. On foreign policy, Third Way governments have been notably internationalist in approach, and debt relief for the poorest countries became one of the defining elements.

In Canada, the Liberal Party (in office since the early 1990s) has put forth a particular version of the Third Way, described as "a distinct Canadian way, a distinct Canadian model: Accommodation of cultures. Recognition of diversity. A partnership between citizens and state. A balance that promotes individual freedom and economic prosperity while at the same time-sharing risks and benefits. An understanding that government can be an instrument of collective action (...), caring and compassion, an insistence that there be an equitable share of the benefits of economic growth." (*Canadian Way in the 21st Century*, paper presented at the international meeting of Third Way governments "Progressive Governance for the 21st Century", in Berlin on June 2-3, 2000). The Canadian Way has four key elements: "Connecting Canadians to the information highway; investing in access

to education and promoting excellence in post-secondary education, investing in children and their families; and developing active measure to help Canadians and keep work." Other elements of the Canadian way, which are also characteristic of Third Way platforms, include: deficit elimination and debt reduction, investment in health and in the environment, engaged citizens in safe and strong communities, and greater transparency and accountability in government practices. Internationally, Canada has promoted debt relief for poorer nations, human security, human rights, peace, and a rules-based approach to free trade as pillars of its foreign policy, consistently with Third Way tradition.

Lacking clear and consistent articulation, notions of a Fourth Way appear in the South American and Canadian contexts. An emphasis on grassroots, participatory democracy, and internationally, a desire to limit US dominance (even an anti-US sentiment) are the main elements shared by proponents of a Fourth Way. In the South American context, the notion of a Fourth Way ("Cuarta Vía") is used by some to mean an alternative to neoliberalism, the "Third Way", and the classic guerrilla warfare of the 1960s. The indigenous uprising in Ecuador that toppled president Jamil Mahuad in 2000, and Chavez' Bolivarian revolution are the main expressions of the Fourth Way in the region. Its key tenets include participatory democracy, the motto "markets, states and solidarity", and regional autonomy. Internationally, it advocates resistance to US unilateralism.

In the Canadian context, the concept of a Fourth Way appears as part of the rhetoric of Canada's Socialist Party, and indigenous thought. For Canadian socialists, the Fourth Way represents a rejection of the Third Way as timid and vacuous and it entails "a bold, broad, anti-capitalist agenda to reform the global order by promoting human-centred,

gender-just, ecologically sound, development based on a radical social transformation” (Editorial in *Canadian Dimension*, Volume 33, No.4/5, Fall of 1999). The Fourth Way seeks to regulate global capital, trade and investment in the interests of equity and balanced regional development. In the global stage, it aims to limit the use of unilateral military force.²

Multilateral Approaches to Inequality and Development

Old wine in new bottles?

The hemisphere’s largest multilaterals, including the World Bank (WB), the UN’s Economic Commission for Latin America and the Caribbean (ECLAC), and the Inter-American Development Bank (IDB) have long prioritized poverty and inequality. However an across-the-board shift seems to have occurred in how these institutions conceptualize these issues, and how they can best be addressed.

² The notion of a fourth way also comes up in Canada in the indigenous context. Embodied in the document “The Fourth Way”: An indigenous contribution to diffusing violence and terror” (2002), prepared by “Four Worlds International”, the “Fourth Way” represents a pathway beyond assimilation, resignation, and resistance. It is rooted in the post-Sept. 11 world, and it has domestic, regional, and international dimensions. The Fourth Way strategy consists of constructive diplomacy, partnership building between indigenous people, their governments and other partners with a focus on sustainable development; the creation of effective participatory governance institutions, and targeted and sustained development assistance. “Fourth Way” proponents believe that Canada is uniquely suited to defuse violence and terror in the world given its tradition of peacemaking and development, and ancient tribal wisdom, ceremonial processes and spiritual disciplines of Canadian indigenous people. This blend of diplomatic and spiritual capacities could be applied, they argue, to penetrate the centre of the tribes and nations in the world’s troubled areas, to make heart to heart connection with the spiritual leaders of those tribes, and to create constructive consultative processes towards sustainable development.

Similar to the other streams of development thought surveyed, the sequencing approach—growth first, then redistribution—has evolved to a focus on fighting poverty and inequality through simultaneous economic and social development, reflecting a consensus among multilaterals that a ‘growth first’ approach is no longer sufficient, but must be integrated with social development. It is now widely recognized among multilaterals that growth can only take off and be sustained in a context of relative macroeconomic stability, consolidated institutions and regulatory frameworks, and social protection to cushion from market shocks. In these respects, there is remarkable overlap between multilateral and insider/outsider critics’ positions.

Post Washington Consensus emphasis on integrated social and economic development are reflected in both World Bank and IDB program frameworks. The Inter-American Development Bank’s strategy papers on *Social Development Strategy* (2003) and *Poverty Reduction and Promotion of Social Equity* (2002) reiterate that poverty and inequality are the primary obstacles to social development in the region; that the lack of social development and inclusion are key obstacles to economic and social growth; and that one of the challenges which continues to confront donors is that responses to these inter-related problems of social development are often partial, sector specific, and therefore not effective. Although the shift from sequencing to a comprehensive, multifaceted approach is relatively recent, it appears that longstanding program strategies, such as Social Investment Funds, are still considered to be useful mechanisms through which to achieve these objectives. In many respects, the UN’s Economic Commission for Latin America and the Caribbean (ECLAC) has tended to be ahead of the curve in highlighting the links between development priorities in the region and advocating and simultaneous

multi-pronged approach. Their *Social Panorama of Latin America 2001-2 & 2003-4* are useful indicators of the model of development advocated by ECLAC. Even more than other multilateral institutions, ECLAC shares the view of many of the insider/outsider critics regarding economic development, identifying problems that are leading to a

widening of the gap within and between different regions, even among developed countries, including economic asymmetries and a skewed playing field; worsening financial volatility due to financial crises, and limited mechanisms to cope with the shocks; asymmetries of information and technological progress, and lack of regulation in banking sector.

ECLAC's agenda to meet these challenges includes:

A BROAD VIEW OF MACROECONOMIC STABILITY: THE ROLE OF COUNTER-CYCLICAL POLICIES

- Avoid unsustainable public and private deficits
- Avert financial disequilibria in both flows and balance sheets
- Multiple macroeconomic policy targets, within a framework encompassing the entire business cycle
- Prudent management of macroeconomic flexibility
- Counter-cyclical macroeconomic management should become the framework of IFIs

MACRO-ECONOMIC POLICIES ARE NOT ENOUGH: THE ROLE OF PRODUCTIVE DEVELOPMENT STRATEGIES

- High quality infrastructure
- Innovation systems that accelerate the accumulation of technological capacities
- Support for structural transformation
- Diversification of the export base
- Production linkages of exports and FDI with other domestic economic activities
- Formation of production clusters
- Restructuring of non-competitive sectors
- A new role for domestic and regional markets?

IMPROVED SOCIAL LINKAGES

Three essential components

- A long term social policy aimed at improving equity and guaranteeing inclusion
- Economic growth that guarantees the growth of quality employment
- Reduction of the productivity gaps (dualism) between different sectors and economic agents

Integrated policy

- Education
- Employment
- Social protection
- Disparities in income distribution are an essential constraint to economic growth in Latin America

Based on presentation by panellist Inés Bustillo, Director of the Washington Office, ECLAC at FOCAL's IV Forum of Hemispheric Experts, September 3, 2003.

Through the new lens of 'MDGs'

As with bilateral aid, multilateral approaches are grounded in the *International Development Goals*, as defined in the United Nations *Millennium Declaration* (2000), to:

- Reduce by half the proportion of people in extreme poverty by 2015

- Achieve universal primary education in all countries by 2015;
- Demonstrate progress towards gender equality and the empowerment of women by eliminating gender disparities in primary and secondary education by 2005;
- Reduce by two-thirds the mortality rates for infants and children under 5 years old and

by three-fourths the mortality rates for mothers by 2015;

- Provide access to reproductive health services for all individuals of appropriate age no later than 2015;
- Combat HIV/AIDS, malaria and other diseases;
- Implement national strategies for sustainable development by 2005 to ensure that the current loss of environmental resources is reversed globally and nationally by 2015;
- Develop a global partnership for development.

MDGs, as with other international targets with definitive timelines, offer the advantage of leveraging global attention and resources, fostering policy coherence, and creating a potential 'economies of scale' approach for coordinated development in these areas. It is an approach that has met with success in other benchmarked areas, including vaccination programs & literacy. Cautious critics support the effort, but are wary of a tunnel vision, one-goal-fits-all approach, and 'day after' consequences—i.e., these initiatives have shown a steep decline after the set date. For the Latin American context, the MDGs present a particular set of challenges. ECLAC explored MDGs with a regional lens, and produced a report on the conditions under which eighteen countries in the region would be able to meet the poverty reduction target set out. They found that under current levels of growth and inequality, only 7 of the 18 countries would potentially be able to meet the target (Argentina, Chile, Colombia, Dominican Republic, Honduras, Panama and Uruguay). As ECLAC puts it, a main problem for most Latin American countries, is that "*distribution-neutral economic growth is not a very powerful factor in improving the living conditions of the extremely poor.*" (ECLAC, 2002).

As a second example of regional specificity, the goal of universal primary education has already made tremendous gains in Latin America, what is still

required however, is a focus on the quality and the curriculum; public/private disparities; and the expansion of secondary and tertiary education towards the development of more responsive labour markets. Accordingly, to a greater degree than in other regions, inequality is a defining feature of the region's landscape and a primary determinant of the success of MDG benchmarks.

Breaking through on inequality...

Inequality as a distinct issue with its own set of 'prescriptions' is a notable feature among the primary multilaterals. Of particular significance is the in-depth assessment of the determinants of inequality including race and ethnicity, and policies to address them are laid out in a recent World Bank publication *Inequality in Latin America & the Caribbean: Breaking with History?* (2003). The report seeks to provide new data specifically on inequality generated via extensive household surveying, look at the 'root' causes of inequality in the region, including social, political, cultural and economic factors, and outline options for policy-makers. In what is a fairly significant shift, they look beyond the distribution of income to incorporate other assets and 'opportunities' invoking progressive concepts such as the 'inequality of agency.' They make explicit links between inequality and repercussions for development and growth, and ultimately focus on race, ethnicity and gender as key determinants of inequality in the region.

These socio-political costs of inequality have been brought to the fore by recent Latinobarómetro polls that track the escalating disillusionment with democracy and concomitant economic reforms. The recently released UNDP Report: *Democracy in Latin America: Towards a Citizens' Democracy* (2004) not only identifies inequality and poverty as the main weaknesses of democracy in Latin America, but finds that support for

democracy is higher in countries with lower levels of inequality. The report also revealed that just 43% of Latin Americans are fully supportive of democracy, and that more than half (54.7%) would support an authoritarian regime over a democratic government if it could resolve their economic problems, a considerable decline in support for democracy in Latin America.

It is too early to tell whether the new rhetoric regarding challenges facing the region and the emphases on inequality and exclusion will translate into practice, and future analysis can assess to what extent new development initiatives reflect conceptual shifts. Given the increasing levels of disillusionment with democracy and liberalization, as well as political polarization leading to unstable governance (notably in the Andean region), there is urgency to implement integrated strategies that prioritize equity and inclusion.

Surveying a converging landscape

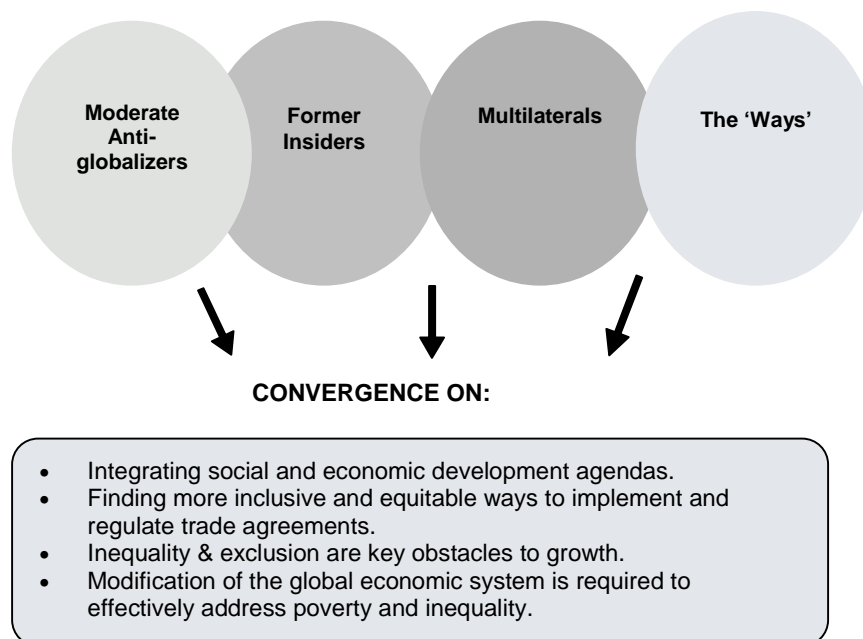
What stands out amidst the current strands of thinking and debate is the emerging convergence among alter-globalizationists, multilaterals and academe around the importance of integrating social and economic development agendas, and finding more inclusive and fair ways to implement and regulate trade liberalization. A focus on inequality and exclusion in access to economic, political and social capital across the globe and within regions and countries is at the centre of this convergence.

It is increasingly recognized that escalating disenchantment with democratic governance and economic reforms has its basis in the failure to significantly reduce inequality, preventing consensus around a social contract, a 'must' for sustainable transitions to democracy in Latin America. It is not a coincidence that support for democracy

among Latin Americans is at its highest in the two countries with the least inequality: Uruguay and Costa Rica, and among the lowest in Brazil and Nicaragua, with possibly the highest levels of inequality in the world, where 54% and 70% of the respective populations surveyed would 'not mind a non-democratic government' if it solved economic problems (Latinobarómetro, 2004). Although inequality has long been recognized as a phenomena pervasive in Latin America, the focused attention that has emerged within mainstream policy and development communities in recent years offers the potential for generating political will and more effective policies to tackle it.

FOCAL's Policy Paper "The Achilles' Heel of Latin America: The State of the Debate in Inequality" by F. Jubany and J. Meltzer (FPP-04-5) takes this background survey to the next step by assessing the state of the debate and policies to reduce inequality, among the region's academics, non-governmental organizations, governments, and multilateral institutions participating in hemispheric processes. It draws upon discussions on tackling inequality in Latin America held in 2003 and 2004 at multiple fora across the hemisphere. The need to devise specific policies to reduce the equity gap within and between societies consistently appears in hemispheric discussions as a prominent, if not primary concern, irrespective of ideological preferences or geography. The paper discusses various aspects of education and tax policy, which are widely considered prime avenues to increase levels of equity. It also examines the heated debate on how to liberalize trade and integrate economies to collectively elevate the wealth of the region's population, and how to ensure that gains are shared broadly. Finally, it considers the implications for Canadian policy.

<http://www.focal.ca/images/pdf/inequality.pdf>



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