

**From “Consensus” to “Contentious”
A New Wisdom from Washington**

Patching the Development Potholes in Latin America

Discussion Paper

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1. The Issue

After two decades of drastic economic reforms, Latin America continues facing the greatest social inequality in the world.¹ Today, the region’s poverty is wider spread, more persistent and with a deeper longer-term impact than ever before.

What makes of this a crisis is the combined effect of at least three set of factors hampering the region: a growing lack of hope in the future among the young generation; an absence of indigenous development thinking among the political and intellectual elites to face a post neo-liberal era; and a lack of international political concern about the dangers facing Latin America despite globalization. Today, in a world driven by less and less ideological and political diversity, the region is an ignored hemisphere.

The promised benefits of liberal market reforms, globalization and greater economic efficiency had peripheral positive results and only among a few. The gap between rich and poor has widened and traditional middle class sectors have lost their stand in the social strata. Social investments to date have partially contained the further deterioration in social indicators and done little to raise the poor quality of basic services.² Emergency social safety nets have become institutionalized and a means to cope with growing income disparities. Privatization and decentralization have contributed to deepen the social impact of economic reforms on the poor, making more evident the weak institutional and political foundations on which the region stands. The new decade have found over one third of the regions population in poverty and overall quality of life indicators below 1970’s levels.

Civil society pressures to acknowledge the harm of predatory forms of globalization³ and the shifts in rhetoric towards social and human development concerns among governments, donor agencies and international financial institutions have done little to change the reality on the ground. Countries in the region are not better off to addressing the lasting impact of the economic policies brought about by the Washington Consensus nor more capable of coming out with more effective alternatives to those promoted by donors and financial institutions to repair the damage. At best, the region is deeply immersed in a crisis management mode trying to contain the latest economic collapse and emerging civil unrest. At worse, it is desperately seeking bandages to fix the wounds caused by neo-liberal policies.

One of such attempts to patch up the harm comes once again from Washington. The “*Washington Contentious. Economic Policies for Social Equity in Latin America*” proposed by the Commission on Economic Reform in Unequal Latin American Societies⁴ is promoted as a “rich new agenda of economic policies directed at reducing poverty and increasing equity – without sacrificing growth.” The Report proposes a set of “equity tools”⁵ as a means to broaden the original Washington Consensus that “was simply too narrow.”⁶ It looks at a “a new paradigm that explicitly embraces equity and poverty reduction as

fundamental objectives – that is, as ends in themselves and as effective means to higher growth.”

The Report acknowledges that the proposed tools are “only for economic policy” and that the fact that economic reforms (those in the Washington Consensus) “are often blamed for slow growth and disappointing social performance” is “hardly justified.” It argues, first that “without the reforms the situation would have been worse” and second, that “times have changed. Policy makers in Washington and Latin America no longer hold equity in contempt.” Because of it, the Report states, “an important core of economic policy wisdom encapsulated in the Washington Consensus should endure.”

The ten proposed “new tools” mirror in a way the ten items of the Washington Consensus. The twist, however, is threefold: The Commission’s Report buys into the new rhetoric with a discourse that gives the proposed “tools” a human face making them more socially driven. The Report also presents itself as “contentious” as far as these “tools”, unlike those proposed by the Washington Consensus, do not represent an agreement and seek out to promote a broader debate. The final twist is that the Report claims to look for a “new paradigm that explicitly embraces equity and poverty reduction as fundamental objectives” which is nowhere defined.

Is this enough to make a difference? Is the crisis in the region simply a matter of using the “right” economic tools, with some acknowledgement of the importance of democracy, civil liberties and the rule of law? Does the Report actually offers new options if, as it states, “policy makers adopting policies flagrantly at odds with it (the Washington Consensus) put their countries in peril – risking permanent damage to social welfare”?

Unfortunately, the Commission’s Report misses an opportunity and falls short of its desirable goals despite its appeal to those who now see the Washington Consensus as the source of all development evils in the region. In fact, the Report is “contentious” not so much because it appears to present an alternative view to the “consensus,” but because it reflects a naïve understanding of the region’s problems. It continues to suggest that solutions are to be found in mechanistic policy adjustments, leaving the fundamental assumptions about Latin America social and economic development that led the region to the current crisis untouched.

Following the Commission’s approach, it could be argued that there are at least ten reasons plus one underlying consideration, to explain why the Report adds little to the current dogma about Latin American development. The Report is not in practice an alternative and does not offers new options because ignores some of the fundamentals of the region’s development in the context of globalization which are not only or even primarily of an economic nature.

2. The Underlying Considerations

Attempts such as the one by the Commission need first to understand a key underlying consideration that cuts across any effort to deal with the region’s crisis. Central to the

identification of means and “tools” to deal with the region’s current state of affairs there is a need to focus first and foremost on the core factors explaining the root causes of the pervading social, economic and political inequity, rather than on the mechanics that may or may not lead to particular short-term results.

Focusing on the latter reflects a mechanistic approach not different from the paradigm help by the Washington Consensus. It reduces the region’s problems to an issue of means and “tools” and to their more or less efficient use. It limits the quest for solutions to remedial policy interventions that do little to reach higher-level goals, as these remain unchallenged. The former implies a shift in how one conceptualizes ends. It implies a prospective vision that defines what type of society one expect to build, entails to learn from successes and failures, charts the direction to take to produce positive change, and holds core new principles and ethical values on which to build that include but go beyond economic policies.⁷

It is not enough to argue, as the Report does, that the new tools are oriented by a “new paradigm” when such a paradigm remains conceptually undefined. No matter how sharpen is the discourse or strong is the desire that such a paradigm will embrace equity and poverty reduction objectives it must yet to be defined. The underlying consideration taken as a given by the Report is what kind of society will be built which in its essence encapsulates equity principles and ethical values in a comprehensive manner.

One of the assumptions of the Report is that a label of equity and poverty reduction is enough to guide prospective development thinking in Latin America and chart a path to overcome the current crisis. Focusing on the tools to fix the problems rather than on the causes of why the problems occur in the first place takes as a given that with some adjustments and some broadening in scope, a new development paradigm is already outlined by a vision of progress, social well being, and growth defined by societies in the North. According to the Report, “the 10 items in the original Washington Consensus said more about equity and poverty reduction than most commentators realize.” Only departing from that point, it can be understood, as the Report does, that the task ahead is one of applying the appropriate mechanisms and tools, while in practice the “paradigm” remains the same.

3. The Ten Reasons

Not addressing this underlying consideration reflects a fundamental gap in the comprehension of the Latin American social and political historical reality and complexity. This gap reaches even a more serious dimension when the discussion limits itself to an issue of “tools” in view of a paradigm yet to be found. There are, however, other reasons explaining why the Commission’s Report falls short of its intended purposes.

1. **The region is not an island.** Globalization in its broadest sense and its negative factors do not seem to figure as determinant factors in the Report’s perceptions about how much room governments in the region have had in practice to decide policies appropriate to their domestic reality. Except when it comes to conceptualize trade as a source of opportunities, the market as a source of equilibrium or suggest that rich-country

protectionism is a poverty causing measure, the Report seems to ignore that globalization, despite all its benefits, has exacerbated the negative features of political, economic and cultural dependency rather than making them disappear.⁸

The measures proposed by the Washington Consensus where adopted by governments not necessarily because they were a first policy choice but because the cost of saying “no” was too high in economic and political terms. If they failed, it was not only because of engrained inefficiencies and corruption. Most of all because they failed because of a lack of institutional capacities and by short-term objectives that benefit the interests of financial and lending institutions and the international capital that care little about the local capacities to sustain growth. The few exceptions were countries that mirrored the ideologies of the “consensus.”⁹ The picture then is more complex than the Report appears to assume.

Without looking at the complexity of the region’s position in the global political and economic map and without acknowledging that governments’ scope for manoeuvring is far more limited than what appears to be, replacing one set of tools for another will not solve the problems. The deterioration of the region’s capacity to implement a development path where equity, social justice and the reduction of poverty is at the centre is part an parcel of the changes in the international geopolitical arena and the boundaries imposed by a “one view” of the world in the current face of global capitalism.

2. **Building Capacity is the Base of Public Efficiency and Discipline.** Government management efficiency and financial discipline are not traits acquire by decree or as a result of fiscal, trade or lending conditionality. The lack of public management efficiency and discipline often found at all levels of government in the region are not only the results of fragmented political cycles, lack of public spending control, or poor budgetary practices. Once again the issues are more complex.

There is a need to take into account at least two sets of intervening issues. On the hand, the lack of services infrastructure, effective social safety nets, inclusive social protection systems, formal employment and the weight of informal sector occupations exacerbate the social and political pressures upon government to respond to the demands from the poorest sectors to satisfy their basic needs. On the other hand, and most importantly, setting in place regulatory systems and procedures that will enhance the accountability, efficiency and discipline of governments in the handling of public policies requires not only the technical but the indigenous institutional capacity to do so, and the democratic political mechanisms to regulate it.

The approach suggested by the Report of setting up rules or applying new and different tool is perhaps suitable for societies where such capacities already exist and where enough resources are available to provide a reasonable political shield to the government in power. In societies where such capacities are lacking, introducing “rule-based fiscal discipline” without the institutional capacity to sustain and manage it is promoting short-term remedies that create the illusion of economic order and instils the fears of political suicide among the political elite.

3. **Most of the time the Regions does not Create its Own Crises.** One side of global interdependency is that often the chain breaks at its weakest point. Volatility in the global markets, protectionism, and control of capital flows are areas beyond the management capacity of countries in the region. When developed economies retrench, the impact is felt in the region to a point that force them to adjust, exacerbating the lack of capacity to manage the on going crisis. Assuming, as the Report does, that it is simply a matter of “smoothing booms and busts” reflects the belief that Latin American governments actually can predict when the busts and booms will occur and, most of all, that they have the capacity to take prompt actions to balance the ups and downs.

This is far from realistic. Countries in the region are too constrained by servicing their debt, responding to demands for basic services, addressing the lack of employment, dealing with protectionist markets abroad, and ensuring that domestic capital remain within their borders, among others, to take steps to minimize the impact of financial and economic volatility which they do not control.

4. **Automatic Social Safety Nets are a Luxury.** The capacity to have in place protection mechanisms that soften the fall and reduce risks in times of crisis is a luxury of societies that have the economic base to do so. To create, maintain and coordinate anti poverty and protection programs depends not only on the governments will but also on a reliable base of resources that is not depending on the flows of aid or the lending policies of financial institutions.

In societies where those in need or at risk represent the majority of the population, the implementation of effective poverty reduction approaches goes well beyond “adequate targeting” or “community involvement.” The issue of who to target among all those in need, on what type of services, and with what prospect of long-term impact and sustainability are critical issues that with limited resources, poor distributional mechanisms, and lack of monitoring and evaluation systems are difficult to address. The suggestions by the Report reflect a notion and a tradition of social protection viable in the North. Its failure is in understanding that no matter how desirable such systems are their implementation and sustainability surpass current capacities in the region and as such the constraints are not of mechanics but of available wealth and its distribution.

5. **Schooling for the Poor is not sufficient.** Improving the quality of education is essential to build the capacity of the region to compete in the global economy. Without better quality education at all levels the capacity to create growth and reach higher level of social equity is building on a base of sand. This implies, however, far more than schooling for the poor as the Report suggests.

Although the poor is the most affected by low quality education, repetition and dropout and requires special attention, the newfound wisdom of reaching the poor risks ignoring the broader picture. With only few exceptions, low quality education in the region cut across income boundaries. This is a key issue in terms of the region’s development.

The new emphasis in education among international organizations and governments is at best well intentioned and at worse short sighted. One of the risks it implies is promoting remedial measures to compensate for the prevailing educational inequalities while lowering standards to the lesser common denominator that the available resources impose. If the region's future rests to a large extent on a better education, the emphasis cannot be only on providing basic education for the poor or making postsecondary systems more efficient. There is a need to adopt a comprehensive approach towards strengthening the quality of secondary and tertiary education to prepare new cadres with a new vision of society and the skills to compete in an inter-dependent world. Ignoring this fact will reinforce the inequalities that exist between the region and the rest of the world.¹⁰

Achieving better education for all and at all levels, however, is a task that goes well beyond the type of measures suggested by the Report. Improving the qualifications of those in ministry positions and the education bureaucracy or assuming that new technologies will provide the answer is once again ignoring the region's reality. The problems of education in the region go much deeper. Poorly paid and unqualified teachers, disparities in human and financial resources exacerbated by ad hoc decentralization measures, the transformation of education into a commodity as a result of privatization, and lack of reliable standards and monitoring systems, are only some of the most daunting problems.

6. **The Issue is Fairness as well as Taxes.** Generating revenue through more efficient taxation systems is one necessary step towards increasing the base of government resources to provide more and better services, including education and health and poverty alleviation programs. However, improving tax policies and collection as the Report suggests address only the surface of the problem. It leaves unquestioned the principles of fairness at the root of the inequality making such measures politically unviable. It is a good hart, Robin Hood approach, which miss the broader domestic picture and the role of international capital.

The need for implementing progressive, efficient and effective tax systems must also draw the attention toward deeper issues and not only to the economic "tools" required to achieve such changes. First, it requires addressing directly the domestic lack of institutional and legal base that could make possible to create, implement and sustain such systems over time and the reality of implementing them under the current political landscape. Second, it requires facing the engrained inequalities and the patterns of concentration of wealth that reinforce and protect regressive taxation mechanisms. Third, it requires looking simultaneously beyond the domestic boundaries at the mechanisms preventing these countries from getting their fair share when dealing with international sources of capital and trade.

The issue of generating revenue through domestic taxation and spending more on the poor is then only one dimension of a broader issue. At the core of redistribution measures domestically is also the issue of fairness countries in the region face when placed in the international context.

7. **Acknowledging the Role of the Informal Sector is a Must.** Central to the future well being of regional economies is acknowledging the role that the informal sector plays in relation to both the generation of productive employment through small enterprises and the

protection of workers rights. In many countries, the informal sector remains one of the main sources of employment, livelihood for young people, income generation for the poor, and access to consumption for low-income sectors. Developing legal and regulatory systems in support of small business and establish mechanisms which are likely to benefit workers in conditions of formal employment are likely not to be enough. It will still leave aside an important proportion of the productive, non-and low skilled workers that depend upon informal sector employment.

Tools to enhance small business opportunities to access financing, regulations to protect and stimulate competition, and attempts to apply traditional labour market reforms as suggested by the Report ignore the importance of the informal sector and its role in domestic markets. The informal sector in most countries represents the economy in which the socially excluded operates. It is where the majority of un-skilled workers find sources of livelihood, and it is the sector of the domestic economy that governments have little or no capacity to regulate no matter how efficient existing legal and financial framework are. In such a context, steps like improving government red tape, improving credit programs, increasing job security, or establishing subsidy mechanisms are likely to fall short of reaching the working poor or strengthening their rights.

In addition, an underlying issue to the type of suggestions put forward by the Report is one of political rights. In a global economic culture where workers demands and organization are increasingly perceived as a threat to the capital establishment, societies in the North maintain workers' collective bargaining rights and a framework of union practices that provide a balance to the functioning of liberal democracies. However, in a region where political participation is perceived as a source of instability, workers organizations maintain traditional practices of polarization, and political parties are weak, it is likely that the proposed "tools" in themselves can lead to change.

8. **Discrimination is more than an Issue of Minorities.** Discrimination of racial and ethnic minorities in the region is an historical fact that only recently is attracting attention. It is part and parcel of a colonial past and the evolution of domestic political and economic elites. The important dimension to capture, however, is that discrimination by race; ethnic culture; gender or position in the social strata is a manifestation of a deeper and broader problem of social exclusion base on inequalities in the distribution of wealth.

Without addressing issues pertaining to wealth re-distribution, democracy and participation it is unlikely that discrimination in the region will disappear. The answer does not lie only in the government recognition of the problem as the Report suggests. Assuming that the power and political elite has not been historically aware that discrimination exists is to lack an understanding of the region's political and economic reality. Establishing policies and programs specific to address racial and ethnic discrimination is a necessary but insufficient response that addresses the manifestations but not the causes of the problem and of poverty.

9. **The Issue is Still Concentration of Wealth.** Like most other problems characterizing social equity and poverty in the region, inequality in land ownership is only one dimension of a problem deeply rooted in the region's development: concentration of

wealth and power. Within the framework of the Report land redistribution is almost exclusively market issue. Past efforts in land reform, however, seems to point in a different direction. Land reform efforts have not failed only as a result of government inefficiencies or short-term political agendas. They have faced strong domestic and international opposition and more often than not they have been stop by political and economic pressures from the dominant domestic and international elites.

Wealth concentration remains the leading cause of inequality in ownership in general. This applies as much to land, to capital, and to technology and know-how. If the issue is to expand opportunities for the poor, the emphasis cannot be only on land markets but on the range opportunity areas that are central to economies in the current global environment.

10. **Participation goes Beyond Access to Services.** Disparities in access to “public services” (transportation, water and sanitation, electricity, telecommunications, etc) are only minimally a result of internal performance and efficiency. Other factors are crucial to improving the access of the poor to public and private services. At the base, the issue of availability and resources remains as central as the issue of ownership and distribution. Privatization and decentralization have not necessarily improved service delivery to the poor, particularly those in marginal and rural areas, nor have they improved affordability.

Better access to services is part and parcel of improving the conditions of participation in society to what constitute public good. This implies, on the one hand, improving the capacity of the poor to put forward demands and insists on accountability of both public and private service providers. On the other hand, it implies to have in place systems that protect and entitle participation, identify needs and protect rights.

Notes

¹ According to CEPAL (1999) the ratio income share in Latin America and the Caribbean is 46 to 1 when the richest 10% of the households is compared to the poorest 10%. This is twice the next highest ration of 24 to 1 in Sub-Saharan Africa and three times the rate of 15 to 1 in industrial countries. Between 1980-98, there were than forty episodes in which annual per capita GDP fell by 4% or more. The poor in Latin America are poorer than in any other region in the world. Over 200 million people live in poverty at the end of the 1990s with 17% of households living in extreme poverty.

² There is growing consensus that one of the main problems affecting the poor in terms of access to social services such as education and health is the quality of the services provided. The gains made over the past years as a result of increased social investments and the proliferation of pro-poor programs are limited by their poor quality thus increasing the development of two-layer systems, a situation that in some instances has been reinforced by privatization and decentralization.

³ See James Petras and Henry Veltmeyer. *Globalization Unmasked. Imperialism in the 21st Century*. Halifax, Nova Scotia, Canada: Fernwood Publishing – Zed Books (2001).

⁴ Nancy Birdsall and Augusto de la Torre, with Rachel Menezes. *Washington Contentious. Economic Policies for Social Equity in Latin America*. Washington DC: Carnegie Endowment for International Peace and Inter-American Dialogue. (2001)

⁵ The ten “tools plus one” proposed by the Commission are: Rule-based fiscal discipline; Smoothing booms and busts; Social safety nets that trigger automatically; Schools for the poor; Taxing the rich and spending more on the rest; Giving small business a chance; Protecting workers’ right; Dealing openly with discrimination; Repairing land markets; Consumer-driven public services, plus Reducing rich-country protectionism.

⁶ The ten policies included in the Washington Consensus are: Fiscal discipline; Public expenditure; Tax reform; Interest rates; Exchange rates; Trade policy; Foreign direct investment; Privatization; Deregulation; Property rights.

⁷ Cristovam Buarque in his book *The End of Economics? Ethics and the Disorder of Progress* (London & New Jersey, Zed Books Ltd, 1993), argues, “Social objectives have been subordinated and viewed as a consequence of technical progress rather than as the purpose of civilization. Ethical values, meanwhile, have been discarded. (...) True development demands not only understanding and mastering the most efficient means of accomplishing progress but also, at a more profound level, a capacity to define the very purposes that should be sought. (...) It is, indeed, essential that technology be subordinated to an economic rationale, but this must, in turn, be circumscribed by social objectives, which must ultimately be dictated by ethical values. (...) So Economics sorely needs to rediscover ethics.” (xi-xii)

⁸ Although for today's development discourse the language of the Dependency Theory if the 1960-70's is both passé and too rooted in leftist thinking, and therefore heretic, it is worth to keep it in mind. "Dependence is a situation in which a certain group of countries have their economy conditioned by the development and expansion of another economy, to which the former is subject. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant) can expand and give impulse to their own development, while other countries (the dependent) can only develop as a reflection of this expansion.. This can have positive and/or negative effects on their immediate development. In all cases, the basic situation of dependence leads to a global situation in dependent countries that situate them in backwardness and under the exploitation of the dominant countries. The dominant countries have the technological, commercial, capital resources, and social-political predominance over the dependent countries. (...) This permits them to impose conditions of exploitation and to extract part of the domestically produced surplus." Theotonio Dos Santos. "La crisis de la teoría del desarrollo y las relaciones de dependencia en América Latina." Santiago: Boletín del Centro de Estudios Socio-Económicos. N 3, 1968, (26-27).

⁹ The case most often cited as a case of success is Chile. What is important to keep in mind, however, is that Chile implemented its most drastic economic reforms under a dictatorial system under which there was not room for dissent.

¹⁰ Daniel Morales-Gomez. "Strategy Framework for Programming in Education for the Americas." Ottawa, Canada: Social Development & Policy Group Ltd. Background paper prepared for the Americas Branch. Canadian International Development Agency. January 2001.