

The “Double Transition” in Latin America: Democratic Change and the “Washington Consensus” (Main Critiques and Challenges in the 21st Century)

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Abstract

The current situation in Latin America is often conceived of as a “dual” or “double transition,” that is, a simultaneous transformation of political and economic regimes. In fact, one can observe an increasing synchronization of economic and political liberalization processes throughout the Hemisphere. But how long is this likely to last? Is Latin America on a development path that includes both free markets and political democracy? What are the prospects for economic development, greater equality, social justice and democratic consolidation?

Prospects for the region as a whole do not seem very encouraging. Structural reform and political liberalization have not yet contributed to solve the most pressing problems: high levels of poverty, social injustice, and increasing income inequality. Moreover, violence, armed uprisings, crime and drug trafficking have increased in the last few years; and new radical movements have emerged in several countries challenging the new political and economic scheme.

The purpose of this work is to evaluate different perspectives related to the “double transition” in Latin America. In particular, I will assess the “Washington Consensus” and the prospects for democratic consolidation in the region, both in the light of about fifteen years of experience, and in view of critiques such as those by Joseph Stiglitz, Nancy Birdsall, Augusto de la Torre, and James Petras, among others. On the whole, I will situate my analysis as part of a search for both democratic stability and greater social justice. This paper is divided into two parts. In the first part, I present an account of the overall effects of economic reform policies and political liberalization in Latin America. In the second, I analyze different critiques of the “Washington Consensus,” and evaluate the prospects for democratic stability, economic development and social justice in the Hemisphere under the current context of globalization and structural reform.

INTRODUCTION

The current situation in Latin America is often conceived of as a “dual” or “double transition,” that is, a simultaneous transformation of political and economic regimes. In fact, one can observe an increasing synchronization of economic and political liberalization processes throughout the Hemisphere. But how long is this likely to last? Is Latin America on a development path that includes both free markets and political democracy? What are the prospects for economic development, greater equality, social justice and democratic consolidation in the region?

Democratic transition in Latin America has coincided with the advancement of what is known as the “Washington Consensus.” This framework entails a set of economic reform policies that are viewed as supportive of sustainable growth and economic development. Specifically, the “Washington Consensus” refers to: sound fiscal management, liberalized financial markets, competitive exchange rates, opening trading regimes, protection of property rights, and a reduction of excessive state involvement in the productive sectors of the economy.

The disappointing economic and social performance after nearly fifteen years of structural reform has revealed basic deficiencies and limitations of the “Washington Consensus.” What is more, the Mexican peso crisis of 1994; the *Zapatista* uprising in Chiapas, Mexico; the current economic crisis in Argentina; last year’s short-lived coup against Venezuelan President Hugo Chávez; and recent political and economic instability in a number of Latin American countries, have called into question the view that free markets and greater democracy go hand-in-hand. Such events have strongly challenged the viability of the so-called “neoliberal” model that has been operating in Latin America for about fifteen years.

Prospects for the region as a whole do not seem very encouraging. Structural reform and political liberalization—or the “double transition” toward democracy and free-markets—have not yet contributed to solve the most pressing problems in Latin America: high levels of poverty, social injustice, and increasing income inequality. Moreover, violence, armed

uprisings, crime and drug trafficking have increased in the last few years; and new radical movements have emerged in several countries challenging the new political and economic scheme.

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This paper is divided into two parts. In the first part, I present an account of the overall effects of economic reform policies and political liberalization in Latin America. And in the second, I analyze different critiques of the “Washington Consensus,” and evaluate the prospects for democratic stability, economic development and social justice in the Hemisphere under the current context of globalization and structural reform.

In the first place, I analyze various theoretical considerations about the “double transition” phenomenon. Then, I evaluate the “double transition” in Latin America, and, specifically, the prospects for political stability and economic development. Consequently, I examine the social and economic performance in the region after one decade and a half of structural reform. Central to this discussion is the analysis of the critical hemispheric dilemmas: poverty, inequality and social injustice.

In the second section of the paper, I begin by examining the major risks for democratic rule in Latin America. I put particular emphasis on the new radical movements that have emerged in response to the dire and drastic consequences of the so-called “neoliberal” policies and the current trajectory of globalization. Then, I try to determine the possible outcomes of distributive conflicts in the fragile democracies of the Hemisphere.

Specifically, I refer to the contention that political democracy is not sustainable under economic liberalism, particularly in the cases of very unequal societies.

In the last part of this essay, I examine three main critiques to the “Washington Consensus.” For analytical purposes, I divide these critiques into two groups. One group includes views of those who call for a revision of the current framework, but do not challenge the basic precepts of the “Washington Consensus”—I will call this group of people the “pragmatists.” The second group—which I denominate the “radicals”—includes critiques of those more associated with the ideological “left” in economic policy. According to this perspective, the alleged benefits of globalization, free-market capitalism and democracy conceal realities that are better understood within the framework of “U.S. economic imperialism,” “transnational capitalism,” and social mobilization. I conclude by arguing that urgent actions should be taken in order to achieve the fundamental goals of democratic consolidation and greater social justice in the Hemisphere. The promotion of redistributive measures operating through democratic channels seems to be crucial. Otherwise, we could be witnesses of a resurgence of authoritarianism, and experience its devastating consequences in the near future.

THE “DOUBLE TRANSITION” IN LATIN AMERICA: DEMOCRACY/POLITICAL LIBERALIZATION AND ECONOMIC REFORM

What is the Double Transition?

The direct relationship between democratic change and economic reform is what literature refers to as the “double transition.” The analysis of this phenomenon in the case of Latin America is quite relevant due to the fact that in most countries of the region economic liberalization has closely followed the transition to democracy. This has raised important practical and theoretical questions: What is the relationship between the two transitions? Do they reinforce each other? Or, on the contrary, do they contradict each other?

There is widespread disagreement concerning the idea that a necessary relation between economic liberalism and democracy exists. The supporters of this idea assert that market-oriented policies establish the foundations for political democracy; in other words, that the

liberalization of markets does lead to the liberalization of politics. According to this view, freer markets can be an important check on the abuse of state power, and, at the same time, democracy can help to consolidate a market economy. The reasoning here is the following: “free markets increase choices, foster individualism and promote social pluralism, all essential ingredients of a democracy. Alternatively, a democratic political system is seen as an indispensable means of securing the optimal or necessary conditions of capitalism, which is viewed as the most effective and efficient form of economic development¹” (Petras and Veltmeyer 2001: p. 106).

Some analysts view this process as extremely positive. For example, Jorge I. Domínguez asserts that “a democratic polity informed by a genuine and practical commitment to markets is in the long run the best political response to the problems posed by the rational expectations of economic actors” (1998: p. 74). In his view: “Prospects for the consolidation of democratic politics and economic reforms depend on the use of democratic procedures to construct stable majorities in support of freer markets and freer politics. Democracy, in sum, is more likely to represent citizens’ preferences, to build the structures and rules that will credibly address the rational expectations of economic actors, and to enact the wise laws that make us free” (p. 83).

A second frequently accepted wisdom states that political and economic reforms tend to undermine each other. According to this line of reasoning, “[b]y raising the political costs to governments of adhering to democratic practices, economic reform hinders both the consolidation of democracy where it already exists and the extension of democracy in countries where it is limited or does not exist at all. Equally, democracy is seen to undermine economic reform because of the constraints elections impose on governments’ ability to implement reforms that could be electorally costly” (Oxhorn and Starr 1999: p. 2).

1 “Although short-term trade-offs have generally been recognized, the long-term view is that democracy will be associated with economic growth and improved standards of living” (Oxhorn and Starr 1999: p. 2).

Oxhorn and Starr recognize that “if the political order fails to respond to popular grievances, confidence in the utility of democracy will suffer, thereby undermining the process of democratic consolidation” (p. 245). In fact, such a situation could lead to the emergence of some kind of nondemocratic tendency. In the case of the new democracies in Latin America, for example, the worry is that they “will endure only as long as prosperity does, and that economic setbacks will lure democracies back to their old statist and populist habits” (Domínguez 1998: p. 81).

At the same time, democracy in the political realm could work against economic reforms. In fact, there are tensions generated by the necessity of implementing political and economic reform simultaneously. Grzegorz Ekiert and Jan Kubik (1998) highlight the possibility that “the high short-term social costs of neoliberal reforms will anger the public, which will utilize the newly acquired freedoms and newly established democratic procedures to block economic transformations and depose the reforming elites” (p. 577). What is more, and “as various analyses of Latin American cases amply demonstrate, the public reaction to neoliberal reforms is likely to take the form of mass protest, which may turn violent and exact casualties” (pp. 577-578).

Furthermore, it has been argued that successful economic reform is largely independent of regime type. Actually, some experiences show that there is no clear relationship between political and economic liberalization. For instance, “in the U.S., local governments and local communities are beginning to reject the free market and demand forms of state ownership in key sectors such as electricity and water. This case of local democracy spurring non-'free market' policies gives the lie to the oft-used claim that 'free markets' and greater democracy go hand-in-hand. The proponents of 'free trade' would have us believe that free market economics is a driving force behind democracy around the world. Yet a democratic government was overthrown in Chile and a ruthless dictatorship installed in order to pursue the free market dream” (FOEI 2001: p. 10). China represents another example of an economy that has adopted a more free market approach with no signs of advancing democracy on the horizon. Regarding this case, Joseph Stiglitz (1998) comments: “The magnitude and success of China's economy over the past two decades

also represents a puzzle for standard theory. Chinese policymakers not only eschewed a strategy of outright privatization, they also failed to incorporate numerous other elements of the Washington consensus. Yet China's recent experience is one of the greatest economic success stories in history” (p. 12).

In the case of the new democracies of the Third World, what line of reasoning is correct? Do free-market policies promote or hinder democracy? Does democracy inhibit or support the economic reform process? These questions go to the center of Latin America’s current dilemma. Here, the claim that democracy can be good for markets and vice versa is quite controversial.

Democratic Consolidation and Economic Reform in Latin America

Long characterized by authoritarian governance and closed, state-directed economies, Latin America is now dominated by democracies and open, market-based economies. In fact, as Domínguez (1998) recognizes: “Never before in the history of Latin America have so many countries had constitutional governments, elected in free and competitive elections under effective universal suffrage, that also pursue market-based economic policies...[This} combination...—...free politics and free markets—is truly without precedent” (p. 70).

Latin America has rarely conformed to predictions linking economic liberalization and democracy, even during periods of rapid economic development. Actually, “economic liberalization without political liberalization has been far more common than democracy with economic liberalism.” Moreover, “the region’s most impressive period of popular sector incorporation in terms of growing real per capita incomes, social mobility, and ‘social rights of citizenship’ coincided with extensive and growing state intervention in the economy, [and] considerable economic protectionism” (Oxhorn and Ducatenzeiler 1999²: p. 16).

In the 1970s closed economies and authoritarian governments were dominant features throughout Latin America. And as Petras and Veltmeyer (2001) explain: “until the [early] 1980s, it was widely assumed by the advocates of and apologists for capitalist development that it required economic but not political liberalization...; the authoritarian state was viewed as a better political form of capitalist development than the liberal democratic state” (p. 9). This may explain why during this period it was difficult to believe that democracy and free markets “can even coexist, much less thrive jointly.” In this last respect, Jorge Domínguez comments: “The 1970s were pervaded by a seemingly well-grounded pessimism about the ability of Latin American democracies to implement sound, ground-friendly economic policies. There seemed to be an elective affinity between sensible economic policies and bureaucratic-authoritarian regimes, and also between economic malperformance and the demagogic populism of civilian politicians” (1998: p. 70).

In the 1980s, however, the whole issue was recast with an emphasis on democracy as an essential precondition of the economic liberalization process. This new approach—that anticipated the benefits of greater economic development and political stability—is firmly supported by several analysts and policymakers throughout the region. Among them is Jorge Domínguez, who asserts: “[D]emocratic institutions and procedures in Latin America have worked to set the long-term rules that enable rational economic actors to believe that the open market economy is there to stay” (1998: p. 74). In general, for the supporters of this view: “The transitions from authoritarian rule—that began in the early 1980s and came to fruition mostly in the course of that decade—would be successful and lasting on this occasion, ...because the factors that contributed to democracy’s ephemeral nature in previous eras were neutralized by maturing leaders, a fortified civil society, and more responsible international patterns.”³

2 “The Problematic Relationship Between Economic and Political Liberalization: Some Theoretical Considerations,” in Oxhorn and Starr, eds. (1999), *Markets and Democracy in Latin America: Conflict or Convergence?* Boulder, CO: Lynne Rienner Publishers.

3 In Castañeda, Jorge G. (1999), “Democracy and Inequality in Latin America: A Tension of the Times,” in Domínguez, and Lowenthal, eds., *Constructing Democratic Governance: Latin America and the Caribbean in the 1990s*. Baltimore, MD: Johns Hopkins University Press: 1999: p. 42.

Notwithstanding the last, there are some who hold less optimistic views about the “double transition” in Latin America. For James Petras, for example, “the triumphalist rhetoric... that celebrates the victory of free markets and free elections is premature.” According to his view, “[t]here is another reality, found in the growing electoral and extra parliamentary opposition demanding participatory democracy and social equality” (1999: p. 1).

Recent economic adjustments and structural changes—together with the economic and financial crises of the 1990s—have indeed generated major dislocations and considerable social costs for the countries in the region. It has often been argued that such a situation poses a great danger to the new Latin American democracies. The high social costs of economic transitions and recurrent economic crises could easily provoke widespread protests leading to the collapse or serious weakening of democratic institutions.

Moreover, it is important to highlight the negative effects that high levels of socioeconomic inequality could have on the consolidation of democracy in the region. Actually, the most enduring aspect of Latin America’s political economy is the unequal distribution of incomes and assets, and its political consequences. This historical problem was exacerbated by the significant economic dislocation that began with the debt crisis of the 1980s and persisted with the economic policies enacted to restore economic dynamism. Actually, increasing or high levels of economic inequality are crucial in explaining political instability. Consequently, Castañeda (1999) claims: “[b]ecause in Latin America today there is more inequality than before, and because Latin America was already more unequal than any other part of the world, the fragile democracy whose birth or resurrection it has witnessed in the past decade is likely to be short-lived” (p. 47).

After nearly fifteen years of structural reform, Latin America’s economic and social performance has been quite poor. During this period most Latin American countries have pursued—with considerable vigor—the economic policies that make up the so-called “Washington Consensus.” And as Birdsall and de la Torre (2001) acknowledge: “the future of Latin America [seems] grim in the face of [certain] devastating problems—slow

and unsteady economic growth, persistent poverty, social injustice, and personal insecurity” (p. iii).

Latin America after 15 Years of the “Washington Consensus”: Poor Economic and Social Performance

Globalization and the “Washington Consensus”

The structural distortions resulting from the strategy of “import-substitution industrialization,” the oil shocks of the 1970s, and the subsequent debt crisis, led the international financial community (the IMF, the World Bank, and the Inter-American Development Bank) to arrive at the conclusion that Latin America required fundamental economic reform.

In the past fifteen years the dominant direction of Latin American economic policies has been to reduce barriers to foreign trade and investment, sell state-owned companies to the private sector, and tighten fiscal and monetary practices. In his seminal article: *What Washington Means by Policy Reform*,⁴ economist John Williamson detailed a package comprised of ten economic reform policies “that were widely viewed as supportive of development,” at a moment when Latin America was experiencing the devastating effects of the debt crisis.⁵ He named this package the “Washington Consensus” because of its backing by the U.S. Treasury and the Washington-based international financial institutions.⁶ On the whole, the “Washington Consensus” entails three sets of prescriptions: a) it calls for a reduction of the economic role of the state; b) advocates

4 In John Williamson, ed. (1990), *Latin American Adjustment: How Much Has Happened?* Washington, DC: Institute for International Economics.

5 These policies are: 1) fiscal discipline; 2) a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; 3) tax reform (to lower marginal rates and broaden the tax base); 4) interest rate liberalization; 5) competitive exchange rate; 6) trade liberalization; 7) liberalization of FDI inflows; 8) privatization; 9) deregulation (in the sense of abolishing barriers to entry and exit); and 10) secure property rights.

6 It is important to point out that for Williamson the “Washington Consensus” is not a set of rigid, almost unalterable, set of theoretical propositions. With the term he “intended to describe a technocratic policy agenda,” but “not an ideology.” However, one could argue that the concept in itself does involve a particular kind of ideological consensus: pre-dispositions towards markets, private capital and free trade and investment, while harboring a deep distrust of socialism/communism, central planning and government intervention.

support for the private sector; and c) urges Latin American governments to drastically revise their policies on trade (Smith 2000: pp. 255-256).⁷

In the 1990s the technical and political leadership of Latin America firmly embraced the “Washington Consensus” economic reform package. This reform was promoted by the international financial community and reinforced with policy-based lending and conditionality. The pressure from the IMF and the World Bank to make their loans conditional on the adoption of Consensus-inspired policy reforms was of particular importance in the course of this process. At the same time, the economic downturn of the 1980s contributed to the further opening of political systems in the region. And as Domínguez (1998) asserts: “The international community began to demand democracy in politics and competence in economics just as a new generation of Latin American elites was at last able and willing to supply them” (p. 73).

It is worthwhile mentioning that the “Washington Consensus” developed at a time of increasing economic “globalization,” that is, when a much greater integration of economies around the world—particularly through trade and financial flows—takes place. The main forces driving this process include: technology, the growing faith in markets, and the growing connection between developed and Third World countries.

The globalization process has been characterized by a greater power and presence of transnational corporations; it has also increased Latin American countries’ dependence on the United States and the international financial institutions. The dynamics of this process has been reshaping socioeconomic and political relations throughout the region.

Therefore, as Brendan Martin recognizes: “there is a valid question to be asked as to whether current trends of globalization are compatible with sustainability, equity and democracy—whether globally integrated capitalism dominated by the United States...and big transnational businesses...can be reconciled with those values” (2000: p. 23).

Similarly, for Joseph Stiglitz there is this concern about the effects of globalization on

7 Such prescriptions conform what we know as structural (or neoliberal) reform. Therefore—and aware of Williamson’s considerations—I will be using the terms “Washington Consensus” and structural

democracy. According to him, “[g]lobalization, as it has been advocated, often seems to replace the old dictatorships of national elites with new dictatorships of international finance” (2002: p. 247).

Hence, the original ten policy prescriptions of the “Washington Consensus” remained unchallenged only for a brief period of time. “Changes in the international economic and political environment and new domestic realities in the reforming countries created problems the Consensus did not envision or encompass, thus forcing the search for new answers” (Naim (1999): p. 2). Taking this context into account, several observers and analysts—Stiglitz among them—believe that “the way globalization has been managed, including the international trade agreements that have played such a large role in removing those barriers and the policies that have been imposed on developing countries in the process of globalization, need to be radically rethought.”⁸

Social and Economic Developments after 15 Years of Structural Reform

Insufficient economic and social progress is the result of nearly fifteen years of structural reform in Latin America. Notwithstanding the fact that, in most countries of the region, macroeconomic imbalances have been corrected, old practices of government intervention have been dismantled, and markets have been able to operate more smoothly, the overall results of embracing the “Washington Consensus” economic policies have been unsatisfactory.

In its report "*Latin America after a Decade of Reforms*,"⁹ the Inter-American Development Bank (IADB) acknowledges the poor economic and social performance of the region in the 1990s. This evaluation shows that while economic growth slightly recovered, it did not return to the rates of close to 5 percent that were common in the region in the 1960s and 1970s. Employment did not recover either. Nor did the number of

reform indistinctly.

8 Stiglitz, Joseph E. (2002), *Globalization and Its Discontents*. New York, NY: W.W. Norton & Company: pp. ix-x.

9 In *Economic and Social Progress in Latin America: 1997-98 Report*. Baltimore: Johns Hopkins University Press: 1998: pp. 31-82.

poor people decline from the unprecedented level of almost 150 million at the beginning of the 1990s (IADB 1998: p. 33).

One of the major achievements in this period of structural reform is the recovery of the macroeconomic stability lost after the debt crisis. In this regard, Birdsall and de la Torre (2001) mention: “inflation was cut to single digits almost everywhere; the average budget deficit was reduced from 5% of GDP to about 2%, and public external debt decreased from about 50% of GDP to less than 20%. Tariffs were lowered substantially, from more than 40% to nearly 10%. More than 800 public enterprises in the region were sold to the private sector between 1988 and 1997” (p. 6). Notwithstanding the last, it is important to point out that macroeconomic stability does not assure economic growth, and, what is more, such stability could last only for a brief period of time—consider, for example, the Argentinean case.

Some analysts argue that without the structural reforms, per capita income, and GDP growth would have been lower, productivity of labor and capital would have continued to fall and investment rates would have stagnated. However, they recognize in general that reforms’ achievements have been insufficient, particularly in the areas of economic growth, poverty reduction, income distribution, and insecurity. Social performance in the region has thus been quite disappointing. Certain socioeconomic indicators show slight improvements, such as rates of infant mortality, literacy, and primary school enrollment. But other indicators—access to safe drinking water in rural areas, for example—remain at very low levels. Additionally, it is worthwhile mentioning the persistent low quality of public schooling, which represents an important limitation to future development (Birdsall and de la Torre 2001: p. 7).¹⁰

These results have revealed basic deficiencies in the “Washington Consensus.” Moreover, it is important to take into consideration the detrimental role that the financial crises of the 1990s—Mexico (1994-1995), East Asia (1997-1998), Russia (1998), and Brazil (1999)—have had on Latin America’s economic and social development. According to Moises

10 See ECLAC (2002a), *Social Panorama of Latin America 2000-2001*. Santiago, Chile: United Nations.

Naim, “[w]hat the Washington Consensus did not provide was a set of policies that would enable reforming countries to better cope with the consequences of globalization, especially in the financial sphere” (1999: p. 13). Regarding last decade’s currency crises he comments: “These ‘accidents’ wrought havoc in these countries’ financial systems, bankrupted their banks, set back some of the economic gains they had accumulated through years of painstaking reforms and, in some cases, unleashed a severe political turmoil. They also created the demand for reform in the rules and institutions that govern the international financial system” (p. 13).

But this is not all. Prospects for economic and social development in the near future don’t seem very encouraging, and as James Petras points out: “[l]abor rights continue to be eliminated, and social legislation abolished. Each crisis requires deeper cuts as investment is secured through offers of high interest rates and profits, leading to the decline of domestic investment and downward pressures on wages and salaries, which in turn leads to declining investment, production, and local demand” (1999: p. 108).

Critical Hemispheric Dilemmas: Poverty, Inequality and Social Injustice

Widening economic disparities in Latin America have increased the sense of deprivation and injustice for many. And social mobility and equal opportunity remain alien concepts for several people. At present, poverty, inequality and social exclusion are problems of huge proportions, which may have further negative implications for the consolidation of democracy in the region.

According to the ECLAC (2002a), at the end of the 1990s approximately 43.5% of Latin America’s population was poor and nearly 19% was extremely poor or indigent.¹¹ Measured in absolute numbers, there were slightly more than 211 million poor people as of 1999, of whom somewhat more than 89 million were below the extreme poverty, or indigence line. Although countries have continually engaged in poverty reduction strategies, the outcomes of these policies have not been as fruitful as desired. This

11 Figures are different if households are the measure units. In 1999 nearly 35% of Latin America’s households were poor and 14% indigent (see Appendix A).

problem has been compounded by the persistent inequality of income distribution in the region and by the performance of the labor market, which has generally been unable to absorb the labor force into the formal economy. After taking this context into account, one can easily observe that the region faces an urgent situation requiring a serious and sustained response.

After nearly fifteen years of structural reforms, Latin American economies have made almost no progress in the reduction of poverty, inequality and social injustice. Several analysts argue that the last two conditions have been even aggravated. Persistent income inequality and slow social progress are major reasons for dissatisfaction with the new economic model. After nearly two decades of reform there is no sign in the region that social gaps or the higher levels of poverty built up in the 1980s are declining (see Appendixes A and B). In this respect, Oxhorn and Ducatzenzeiler (1999) observe: “[P]olicymakers throughout the region have sought to address negative socioeconomic trends by attempting to channel minimal state welfare provisions to those most in need. Although they often contribute to a significant alleviation of the immediate effects of poverty for aid recipients, such policies at best have had only limited impact on changing the underlying structure of poverty. Moreover, they have not reversed the worsening patterns of income distribution inherited from the 1980s” (pp. 23-24).

Poverty

ECLAC’s statistics¹² show that poverty and extreme poverty rates in Latin America slightly decreased over the first seven years of the 1990s, followed by a period of stalled progress beginning in 1997.¹³ The estimated percentage of the population living in poverty went down by nearly 5 percentage points between 1990 and 1997 (to 43.5%), but then rose by three tenths of a point (to 43.8%) in 1999. Indigence or extreme poverty fell from 22.5% in 1990 to 18.5% in 1999—rate only five tenths of a point lower than the one registered in 1997 (p. 2).

12 *Statistical Yearbook for Latin America and the Caribbean*. Santiago, Chile: United Nations.

13 According to ECLAC, “the year 1997 marked the end of a cycle of growth in Latin America that enabled a number of countries to make significant strides in reducing poverty. The turning point in this

Unfortunately, the gains made in reducing the relative poverty rate during this period did not translate into a similar change in absolute terms. In fact, the number of poor people increased by nearly 11 million, reaching just over 211 million in 1999. What is more, the poverty trends of the late 1990s continued in the next three years.¹⁴

It is important to point out that these figures, although official and internationally accepted, may not reflect the real situation in the region. Less conservative estimates show higher levels of poverty. According to Castañeda (1999), for example, “between 60 and 70 percent of the population in nearly every Latin American country is poor, devoid of formal employment, decent education, health, and housing” (p. 52).

Inequality and Social Injustice

Inequality is not a new phenomenon. From an international comparison standpoint, Latin America displays the most unequal distribution of incomes and assets of any region in the world. The weighted average of the Gini coefficients—the usual measure of concentration—is substantially higher than in the developed countries, and somewhat higher than in East Asia and Africa.¹⁵

In general, official statistics—such as those presented in reports elaborated by the IADB, ECLAC and World Bank—show that while the last decade and a half “has not been a period of widespread increase of inequality and poverty,” the deterioration trends led by the debt crisis have barely been reversed (see Appendix B). Notwithstanding the last, one could even argue that structural reform in Latin America has indeed resulted in a growing income concentration that has exacerbated the negative trends of the 1980s. This assertion

process was the Asian crisis, which ushered in a five-year stretch of slower economic growth, higher unemployment and unchanging (or, in many cases, rising) poverty indices in the region” (2002b: p. 1).

14 ECLAC also estimates that poverty will increase in the region as a whole this year, taking into consideration forecasts of negative economic growth in 2002. Thus, the proportion of people living in poverty will probably go up to about 44%, while extreme poverty will rise to just under 20%. “The most dramatic increase in poverty is likely to be seen in Argentina, as in 2001, and significant setbacks could be recorded in Venezuela, Paraguay and Uruguay. Only Peru and the Dominican Republic are likely to achieve modest reductions in poverty levels” (2002b: p. 3).

can be supported by several facts. The early stages of privatization, for example, brought many opportunities for officials to favor certain groups. Such groups increased their wealth and assets considerably during this period, while the adverse effects of the structural reforms and the financial crises of the 1990s affected primarily the poorest in the society. This growing polarization is clearly reflected in “the glaring contrast of a hundred or so new multibillionaires amid 200 million new and old poor” (Petras 1999: p. 3).

Castañeda (1999) reviews “other studies and sources of information regarding income distribution in Latin America before and after the lost decade,” and finds out that “while most groups during the adjustment process saw their share in total income falling, the richest ten percent improved their relative position” (pp. 45-46). In this same respect, he contends that “if data were available in relation to distribution of wealth and no longer simply of income, the early 1990s would almost surely show the same process of concentration as with income or even worse. This is particularly true in countries with significant, formerly state-owned sectors of the economy that were largely privatized in the first years of this decade” (p. 46). Therefore, one can argue that public-sector monopolies have been replaced with private sector ones.

It has been widely recognized that one of the major problems in the region—if not the most important one—has to do with the poor quality of education, and its unequal distribution. In fact, the greatest obstacle to future growth is the lag in educational effort, which is limiting the pace of the accumulation of factors and their productivity. “We have...seen that the region’s labor force is woefully undereducated and therefore ill-equipped to compete in a world of open trading regimes and liberalized capital markets. Thus, the wage gap in the region between those workers with higher and technical education and those with only primary or secondary education has widened markedly in the past years.”¹⁶

15 See World Bank (2001), *World Development Report 2000/2001 (Attacking Poverty)*. New York, NY: Oxford University Press; The World Bank.

Overall, and as Oxfhorn and Starr (1999) point out: “Latin America’s historically unequal societies have become even more unequal since 1980. Economic growth and new social welfare policies offer the promise of alleviating at least some social consequences through poverty abatement. But the underlying socioeconomic structures generating inequality remain largely unchanged. Ultimately, even poverty reduction remains highly problematic” (p. 26).

RE-EVALUATING THE “DOUBLE TRANSITION” AND THE “WASHINGTON CONSENSUS”

The Risks for Democratic Rule in Latin America

How compatible could democracy and widespread poverty, inequality and social injustice be? Could democratic rule survive in conditions of growing and sharp inequality? As a matter of fact, without progress in the attempt to reduce inequalities and further economic development, there is a risk for democratic rule. “Success or failure in the economic realm inevitably spills over into the political realm, and vice versa. Promoting a market-based development strategy in Latin America, therefore, is often inseparable from promoting the long-term survival of democracy” (Starr 2000: p. 147).

Haggard and Kaufman (1995) also recognize that “democracy itself can be undermined if governments are incapable of implementing a coherent, and equitable, growth strategy” (p. 325). Thus, they sketch a stylized model of political decay in which prolonged economic deterioration undermines support for representative governments and drains institutions of their democratic content. For them, such a cycle: “...would begin with...an increase in political cynicism and apathy, a decline in effective political participation, and an inability on the part of the political system to generate representative ruling coalitions. In a next stage, crime, civil violence and organized revolutionary or antirevolutionary (“death squad”) activity contribute to a gradual erosion of the substance of democratic rule through intermittent repression of opposition groups, emergency measures, and a decline

in the integrity of legal guarantees...At a final state—still short of a formal transition to authoritarian rule—electoral institutions are rendered a façade” (p. 333).

With this model, Haggard and Kaufman acknowledge the fact that “the erosion of support for democratic institutions could lead to the election of leaders of parties with openly authoritarian ambitions” (1995: p. 334). Furthermore, they suggest that economic crises could reverse democratization through a more indirect route: “Sustained poor performance or sudden economic deterioration lead to an increase in crime, strikes, riots, and civil violence. Rapid social changes and downward mobility for members of the middle and working classes increase the appeal of political movements on the extreme left and right. The deterioration of social order and increasing social polarization provide the classic justification for military intervention. In more extreme circumstances, the state could even collapse entirely as an organization with a credible claim to a monopoly of force” (p. 334).

Even though economic deterioration and increasing inequality in Latin America have not yet led to widespread authoritarian reversals, there is evidence that it has seriously jeopardized prospects for democratic consolidation throughout the region. “It does so in part by causing increased social violence and in part by creating the raw material for polarizing populist and antidemocratic political movements” (Haggard and Kaufman 1995: p. 328).

In fact, in recent years Latin America has been undergoing a sharp rise in crime and violence. What is more, new forms of popular sector mobilization have recently appeared throughout the region as a result of the extreme nature of economic dislocations experienced since the early 1980s. Such actions reflect a “tendency to political alienation and destabilizing social violence.” According to Petras (1999), “[r]adical political activity among peasants and workers is resurfacing once again in an effort to counter the devastating consequences of the neoliberal project” (p. 206). Furthermore, he comments: “Contrary to the mass media and conventional academia’s view of Latin America as having consummated a democratic transition and having become an ‘emerging market,’ the leaders and activists of the new revolutionary movements point to the authoritarian and

elitist nature of the political system and to the social exclusion endemic to the economic model as justifications for the primacy of extraparliamentary activity. Their opposition to neoliberalism takes the form of hundreds of land occupations in Brazil, expansion of *guerrilla* influence across a wide swath of rural municipalities in Colombia, and general strikes in Bolivia and Ecuador involving peasants, Indians, trade unionists, and urban street vendors” (p. 2).

Specifically, the current scheme of economic and political liberalization has been recently challenged by dynamic political and social movements, such as the Landless Workers Movement (MST) in Brazil; the *Zapatista* movement in Mexico; the Revolutionary Armed Forces of Colombia (FARC); the *Piquetero* movement in Argentina,¹⁷ peasant-Indian movements in Ecuador, Bolivia and Paraguay, among others. Moreover, in Argentina, Brazil and Mexico, rank-and-file industrial workers are organizing class-based trade unions to challenge state-run unions. (Petras and Veltmeyer 2001: p. 90)

Distributive Conflicts in Fragile Democracies: Authoritarianism vs. Democratic Consolidation

Recent economic and political instability in some Latin American countries represent a serious threat for the consolidation of democracy in the region. Moreover, poverty, social injustice, increasing inequality, and “a persistent public perception that living conditions have either deteriorated or not improved as promised under Latin America’s new liberal order can undermine public support for both market-based economic policies and for the democratic regime supporting them” (Starr 2000: p. 147).

Towards a Resurgence of Authoritarianism?

As already discussed, in Latin America the progress of political and economic transformations has been uneven and the chances of achieving full democratic consolidation throughout the region are still uncertain. It could be that the Latin American

17 The *Piquetero* movement involves mainly unemployed workers, who take direct action and organize road blockages demanding jobs and subsidies. Strikes and demonstrations organized by this group have been aplenty in the last few years. This movement started in the Northern province of Salta, which has a 40% unemployment rate.

“double transition” may be no more than a conjunctural coincidence. In other words, Latin America may fall back on its history when liberalism has coincided with authoritarianism.

For most analysts, there are no immediate dangers of reverting to authoritarian rule in Latin America; especially, a return to military rule seems improbable. According to Castañeda (1999), “[t]here is a virtual gradualism to this. The discredit of the military, the attachment of broad sectors of society to the democratic paradigm, and the international context make a more simple destruction of democratic institutions...more unlikely than ever” (p. 61).

Notwithstanding the last, one cannot dismiss the possibility that the region could experience a shift to new authoritarian regimes if the region passes through another severe economic crisis. Political democracy should not be taken for granted. Consequently, Haggard and Kaufman (1995) comment: “We can by no means rule out the possibility of open reversals of democratic rule. It is at least theoretically possible that authoritarian reversals would result from the military triumph of revolutionary movements spawned by the crisis, though given the changed international environment, this seems highly unlikely at present. A more likely scenario is that a general erosion of faith in the capacity of democratic governments to manage the economy would increase the appeal of authoritarian solutions to the crisis, not only among elites but among mass publics” (p. 333-334).

Prospects for Democratic Consolidation in Latin America

Consolidation is “the process by which democracy becomes so broadly legitimate among its citizens and it is very unlikely to break down” (Diamond 1996: p. 238). The final question thus is: How can Latin American countries extend and then consolidate democracy while also implementing structural economic reforms? In other words, can the region as a whole aspire to both democracy and open, competitive markets?

“Success or failure in the economic realm inevitably spills over into the political realm and vice versa” (Starr 2000: p. 147). Thus, Latin American governments should, in the

first place, increase their ability to resolve economic crises, and then pursue an effective strategy to promote sustainable economic growth in order to further democratic consolidation and stability. But the consolidation of democratic rule depends not only on economic growth and a broad distribution of benefits; according to Haggard and Kaufman, “it also depends on the development of political institutions that can effectively mediate policy debates and coordinate the relations among contending social and economic interests” (1995: p. 335).

The failure to achieve stable growth and reduce poverty and income inequality can have devastating consequences for the consolidation of democracy. “There have been surprisingly few authoritarian reversals during the past decade, but the fact that most new democracies have survived poor economic performance should not be a source of complacency; survival is not the same as consolidation, and it is altogether possible that faltering performance could once again place the legitimacy of existing political institutions at risk” (Haggard and Kaufman 1995: pp. 309-310). Despite their capacity to survive years of social conflict, and economic instability and decline, several new democracies in Latin America will probably break down in the medium to long run unless their respective governments can reduce significantly and “relatively rapidly” the high levels of poverty, inequality, and social injustice prevalent nowadays, and lay the bases for sustainable growth. Accordingly, Castañeda (1999) asserts: “It seems safer to say that the only way to consolidate democratic rule in Latin America today is by redistributing wealth and income by combining economic growth...with a sufficiently democratic political system that allows those sectors of society that have been heretofore excluded from most of the fruits of previous growth to fight for and achieve a larger share of the pie” (p. 60).

Aware of the risks distributive conflicts represent for democratic stability, several scholars and policymakers—representing every kind of ideology: defenders of economic orthodoxy, pragmatists, radical leftists—have been recently re-evaluating the so-called “Washington Consensus,” making special emphasis on the urgency of designing a coherent strategy directed to reduce poverty and inequality in the region.

Re-evaluating the “Washington Consensus”: The Pragmatists’ Critique

Moving Beyond the “Washington Consensus”: The Washington Contentious

In a report entitled *Washington Contentious: Economic Policies for Social Equity in Latin America*, Nancy Birdsall¹⁸ and Augusto de la Torre¹⁹ discuss the failure of the “Washington Consensus” with regard to promoting social progress. The document thus sets forth an agenda of economic policies directed specifically at reducing poverty and increasing “equity,” without sacrificing growth. The agenda consists of eleven policy recommendations: 1) rule-based fiscal discipline; 2) smoothing booms and busts; 3) social safety nets that trigger automatically; 4) schools for the poor; 5) taxing the rich and spending more on the rest; 6) giving small businesses a chance; 7) protecting workers' rights; 8) dealing openly with discrimination; 9) repairing land markets; 10) consumer-driven public services; plus 1: “reducing rich-country protectionism.”

The first ten policies are of domestic concern exclusively, and the last one has to do with the international context. Through their last recommendation, Birdsall and de la Torre (call on industrialized nations to support less developed countries by eliminating their protection of agriculture and textiles—practices that have generally reduced job and income opportunities in the Latin American region. The reasoning in this regard is the following: “Better access to rich country markets is key to enhancing poverty-reducing growth in Latin America. Donor aid is no substitute for the benefits of open markets in Europe and North America. Ideally, rich countries would ease their barriers and allow the free flow of goods and labor—including those of poor and unskilled immigrants. In Latin America this would reduce poverty significantly, and in North America it would ease labor shortages. The problem is that it is unlikely to be feasible politically. So rich economies should at least open their markets to goods, especially agricultural goods,

18 Currently Nancy Birdsall is the founding President of the *Center for Global Development*. Prior to launching the center, Birdsall served for three years as Senior Associate and Director of the Economic Reform Project at the *Carnegie Endowment for International Peace*. From 1993 to 1998, Birdsall was Executive Vice-President of the Inter-American Development Bank (IADB). Before joining the IADB, Birdsall spent 14 years in research, policy, and management positions at the World Bank, most recently as Director of the Policy Research Department.

19 Former head of Ecuador’s Central Bank, de la Torre is now Regional Financial Sector Advisor for Latin America and Caribbean Region in the World Bank.

produced by unskilled workers in the developing world” (Birdsall and de la Torre 2001: p. 14).

Furthermore, Birdsall and de la Torre suggest that the original reform package was simply too narrow; they intend to "look beyond the 'Washington Consensus' to a new paradigm that explicitly embraces equity and poverty reduction as fundamental objectives” (p. 8). However, one can contend that the paradigm to which these analysts refer to is not exactly “new.” Actually, they never really put into question the validity of the original scheme’s fundamentals. On the contrary, they acknowledge the strengths of the basic framework, and just try to complement it—by adding certain policies designed according to equity considerations. This view is clearly reflected in the following statement: “The economic reforms are often blamed for slow growth and disappointing social performance... That is hardly the case. Careful analyses indicate that without the reforms the situation would have been worse. Per capita income and output in Latin America would have been lower, volatility higher, and poverty and income inequality deeper. So, an important core of economic policy wisdom encapsulated in the Washington Consensus should endure. Policy makers adopting policies flagrantly at odds with it put their countries in peril—risking permanent damage to social welfare” (pp. 7-8).

As of the aforementioned, the authors of the *Washington Contentious* could be considered as defenders of economic orthodoxy, merely attempting to supplement the original economic reform package with poverty and inequity reduction policies. Birdsall and de la Torre recognize that their tools “are only for economic policy—following the lead of the Washington Consensus” (p. 14). And indeed, following its lead, they promote its further implementation. In general, they agree with Williamson (1999), who presently subscribes “to the view that the policies embodied in [his] version of the Washington Consensus are

pro-poor but need to be supplemented in a world that takes the objective of poverty reduction seriously” (p. 10).²⁰

Challenging the Policies of the International Financial Community: Stiglitz’s Critique

One of the most popular critics of the “Washington Consensus” nowadays is Joseph Stiglitz, former chief economist of the World Bank,²¹ and one of three winners of the 2001 Nobel Prize in Economic Science. Essentially, in his view, “[o]pposition to globalization in many parts of the world is not to globalization per se—to the new sources of funds for growth or to the new export markets—but to the particular set of doctrines, the Washington Consensus policies that the international financial institutions have imposed” (2002: p. 221).

Stiglitz’s critique is focused on the following central themes: a) the limitations of the “Washington Consensus”; b) the failure of “shock therapy”²² and transition economics; c) the limits of capital market liberalization; d) the role of knowledge in markets, e) the process of developing market institutions; and f) the primacy of openness and worker participation. On the whole, Stiglitz seem to challenge some aspects of the current economic order, and propose a somewhat “distinctive” strategic approach to development.

Specifically, he argues that the “Washington Consensus” is narrow in its objectives, and that its policies “are not complete and often misguided.” For Stiglitz, the Consensus confuses ends with means and, by ignoring other necessary conditions for development—such as democracy, sustainability and equity—is often counterproductive. In this regard, he asserts: “While [macroeconomic] stability is important, for example, inflation is not

20 It is worthwhile mentioning that Birdsall and the la Torre also claim that the ten economic policy reforms included in the original Consensus “say more about equity and poverty reduction than most commentators realize.” On this argument see *Ibid.*, pp. 4-5.

21 Stiglitz spent seven years in Washington, serving as cabinet member in the Clinton Administration and chairman of the Council of Economic Advisers, and as senior vice-president and chief economist of the World Bank. He is currently professor of economics at Columbia University.

22 The so-called “shock therapy” approach to policy reforms implies the implementation of as many reforms as quickly as possible. In particular, Stiglitz criticizes “shock therapy” with the focus on rapid privatization in Eastern Europe and Russia.

always its most essential component. Trade liberalization and privatization are key parts of sound macro-economic policies, but they are not ends in themselves. They are means to the end of a less distorted, more competitive, more efficient marketplace and must be complemented by effective regulation and competition policies.”²³

He also stresses the fact that sound financial markets are a necessary condition for macroeconomic stability and sustainable economic development. But again, “the agenda for creating sound financial markets should not confuse means with ends.” In fact, “redesigning the regulatory system, not financial liberalization, should be the issue.”

Another issue of great significance for Stiglitz is the role of the state. Actually, financial sector reform, the government's role as a complement to the private sector, and improving the state's effectiveness, are crucial aspects that were not included in the original Consensus. Recognizing this, and the fact that the state has made an important contribution to development, not only in East Asia but also in the United States, Stiglitz (1998) contends: “The government should serve as a complement to markets, undertaking actions that make markets work better and correcting market failures. In some cases the government has proved to be an effective catalyst-its actions have helped solve the problem of undersupply of (social) innovation, for example. But once it has performed its catalytic role, the state needs to withdraw” (p. 15).

According to Brendan Martin, “[r]ehabilitation of the role of government in economic development is perhaps the most obvious respect in which his approach marks a significant departure from the Washington Consensus” (2000: p. 16). Another distinctive feature of Stiglitz’s approach is the importance he attaches to institutional factors. As of this, he claims:²⁴ “States can improve their capabilities by reinvigorating their institutions. This means not only building administrative or technical capacity but instituting rules and norms that provide officials with incentives to act in the collective interest while restraining arbitrary action and corruption. An independent judiciary,

23 The 1998 *Wider Annual Lecture*, p. 4.

24 *Ibid.*, p. 17.

institutional checks and balances through the separation of powers, and effective watchdogs can all restrain arbitrary state action and corruption” (p. 17).

In Stiglitz’s view, “it is not just economic policies and human capital but the quality of a country's institutions that determine economic outcomes.” For him, “institutions determine the environment within which markets operate. A weak institutional environment allows greater arbitrariness on the part of state agencies and public officials.” Similarly, he stresses the role of political, educational and other societal factors on economic development. And “while arguing that development involves more than economics, and giving particular importance to institutional factors, much of his argument rests on the need to overcome 'market failures', particularly those caused by imbalances in the information available to different actors” (Martin 2000: p. 15).

For Stiglitz, building autonomous learning capabilities is crucial for promoting both development and democracy. In relation to this, he “insists that democracy implies a basic right to be informed about what government is doing and why, but transparency and openness also have instrumental value in reducing the likelihood of abuse of power and improving the quality of official decision-making” (Rayment 2002: p. 3). At the same time, he acknowledges the “superiority of democracy and the democratic process in solving problems and advancing knowledge.”

Notwithstanding his criticisms related to some of the decisions recently made by the international financial community, and of certain aspects of the orthodox economics, one can argue that the former chief economist of the World Bank does not challenge the “basic precepts” of the so-called “Washington Consensus.” As Martin (2000) recognizes: “he does not oppose in principle to any of the ten points” detailed by John Williamson in 1990. Actually, “he emphasizes his attachment to some of them—but he does reject a dogmatic approach to any or all of them. He insists they be seen as means rather than ends and pursued and sequenced in the context of wider government action and civil society participation to demonstrate and achieve sustainability, equity and democracy as well as growth” (p. 21). This view can be supported by the following statement: “There

are important advantages to the Washington consensus approach to policy advice. It focuses on issues of first-order importance, it sets up an easily reproducible framework which can be used by a large organization worried about recommendations depending on particular individuals' viewpoints, and it is frank about limiting itself only to establishing the prerequisites for development. But the Washington consensus does not offer answers to every important question in development” (p. 4).

Critics of Stiglitz’s centrist perspective claim that his views are no more than a “modernization of neoclassical doctrine.” Accordingly, Martin Brendan comments: “Stiglitz is a brilliant economist, a...Nobel Prize winner..., and a formidable and fearless spokesman for the cause he espouses. But in acknowledging that the 20th century's brutal attempts of both state and market to enslave society have failed, he is saying nothing new” (2000: p. 38).

A Critique from the Left: Transnational Capitalism and U.S. Economic Imperialism

The left has challenged the current context of globalization and the “Washington Consensus” in a way that differs widely from people like Birdsall or Stiglitz. Actually, this approach has raised certain questions that have not been posed by pragmatist scholars and Washington bureaucrats. Overall, the left concentrates on four main topics: 1) the power of transnational corporations; 2) the inequitable nature of free trade agreements; 3) U.S. economic hegemony; and 4) the importance of the state and the national economy. Frequently referring to concepts such as “U.S. economic imperialism,” “neoliberalism,” “transnational capitalism,” “system of exploitation,” “hegemonic control,” they present a different panorama from the one drawn by pragmatists, or—as Brendan Martin calls them—the “new breed of centrist politicians and technocrats.”

Leftist scholars pay special attention to those inequalities generated by the increasing power of transnational corporations. Murray Dobbin, for example, acknowledges the fact that “[t]he power of corporations to manipulate and control markets is now enormous and, because of the handcuffs placed on governments by trade deals, it is growing exponentially.” He also asserts that, “in almost every significant industrial sector world-

wide, the so-called free market is actually highly monopolistic” (2001: p. 6). What is more, for Dobbin corporations have always tried to limit democracy. In this last respect he comments: “Liberal democracy is, after all, the classic oxymoron: the marriage of hostile opposites. For democracy at its core is equality, and the classic economics definition of “liberal” is the market—as unequal an institution as can be imagined. There is, and has to be, constant tension and conflict between these two principles” (p. 3).

This radical leftist view concentrates also on the inequitable nature of free-trade agreements. For people like Dobbin, the dominant corporations behind the “Washington Consensus” performed a central role in planning these agreements. According to this view, these treaties were “designed to explicitly benefit an extremely narrow range of societal interests” (p. 4). Similarly, Martin (2000) asserts: “the doctrine of comparative advantage... has done so much to shape the inequitable path of globalization and is at the heart of the Washington Consensus” (p. 26).

According to this perspective, the ascendancy of free market regimes in Latin America since the 1980s under the “Washington Consensus” has not led to the development of productive forces, given that the main concern is the free movement of goods²⁵ and capital—but not on the labor markets and the development of national industries. Moreover, free trade agreements “have meant the permanent loss of thousands of manufacturing jobs, since they not only allow, but encourage corporations to move to move to cheaper locations” (Dobbin 2001: p. 4). Freedom for corporations to move around the world to wherever production conditions are most favorable, combined with restricted mobility of labor throughout the Hemisphere, have greatly contributed to increasing inequality within the region. Accordingly, Petras (1999) observes: “Liberalization and structural adjustment policies have played a strategic role in opening up Latin America to U.S. exploitation and in providing a major source of income to compensate for U.S. declining competitiveness in other regions. At the same time, liberalization has created a new class of Latin billionaires, who increasingly dominate

politics and the economy and are major partners with U.S. banks and multinationals... On the other side is the growth of an impoverished labor force faced with declining state social expenditures, chronically low-paid employment, and landless peasants deprived of influence in politics and economy” (p. 162).

Defining a “system of exploitation” and “hegemonic control” in Latin America, leftist scholars—like Petras and Veltmeyer²⁶—launch a severe critique on the current economic order. For Petras, for example, the establishment of “neoliberal hegemony” is directly related to the role of international actors, that is, to the strategy of the U.S. government and multinational corporations operating in Latin America. In this respect, he comments: “The United States is not an “external actor”; its representatives in the international financial agencies design the macroeconomic policies that promote the privatizations, free trade, and debt payments agenda of Latin regimes. U.S. government officials promote and negotiate the openings for the multinational corporations. Officials from the Drug Enforcement Administration (DEA), CIA, and FBI are present, enforcing U.S. drug laws within Latin America. Cultural commodities and media products are ubiquitous in Latin America, influencing the values and outlook of Latin consumers and providing lucrative returns, in accord with U.S. business interests”(1999: p. 3).

According to Petras’ view, the “neoliberal doctrine” benefits U.S. global hegemony increasing the profits for U.S. multinational banks and corporations. Moreover, the role of the U.S. government is fundamental, since it “creates the framework for the expansion and consolidation of U.S. multinationals in Latin America.” Of particular importance in this process is the important lobbying power of the major U.S. corporations. Within this context, the state plays an essential part in “the increasing flows of investment and loans of U.S. multinationals in Latin America and plays a powerful enforcer role in securing the prompt and effective outflow of profits, interest payments, and royalties from Latin

25 It is important to point out the “decisive dependence of the largest U.S. multinationals on overseas profits” and the “reliance of the U.S. economy on favorable accounts with Latin America” to compensate for deficits in other parts of the world, such as Asia and Germany (Petras 1999: p. 50).

26 See Petras, James F. and Henry Veltmeyer (2001), *Globalization Unmasked: Imperialism in the 21st Century*. Halifax, NS: Fernwood Publishing; London; New York: Zed Books: Distributed in the USA by Palgrave.

America to the United States.” Therefore, it seems clear that “far from being transcended by the emergence of a global ‘market’, the U.S. state continues to play an influential role through its intervention” (1999: p. 8).

Essentially, the leftist approach to the “Washington Consensus” contends that economic “liberalization has not and is not merely a ‘development strategy’ elaborated to facilitate Latin American integration into the world market... Rather, liberalization is a product of U.S. economic policymakers, bankers, and multinational corporations allied with Latin American transnational capitalists” (Petras 1999: p. 163).

It seems then that “greater capitalist international integration is accompanied by increased domestic disintegration.” As of the aforementioned, the state and the strengthening of the local economy are viewed as “potential resources and lever for change.” Thus, “the new radicalism” regards “the national economy as the starting point for any political confrontation with the forces of neoliberal capitalists and their international allies.” But even more important, it views “the state as an agency to redistribute resources to the popular sectors of civil society” (Petras 1999: p. 207). Consequently, Dobbin (2001) asserts: “Indeed, the only effective counterbalance to the power of corporations is the power of the state. And, while citizens are rightfully angry over the betrayal of governments and their current efforts to reverse decades of egalitarian policies, the state remains the only truly effective expression of organized citizen power. We easily lose sight of the fact that the modern state is the modern expression of community: the use of the aggregate power of individual citizens in the interests of the community” (p. 5).

FINAL REMARKS

Pragmatists vs. Radicals: In Search for Development, Equality and Democratic Stability

For some analysts, policymakers, and especially for the international financial community, Latin America’s unsatisfactory economic and social performance does not indicate that the “Washington Consensus” economic reform policies are mistaken prescriptions for achieving the growth, stability, and “equity” the region needs. In their

views, it is rather that such reforms have not yielded all their fruits—because they have been incomplete, badly or partially implemented—or because not enough time has passed to see their effects. In general, they accept the fact that the “Washington Consensus” is in urgent need of revision, but contend that its basic ideas remain sound. In other words, the main claim is that the new economic policies are “necessary but not sufficient” for promoting development.

This view is clearly illustrated in the IADB’s 1998 report: *Latin America After a Decade of Reforms*, where the assertion is that the structural reforms adopted in Latin America after the debt crisis have indeed “helped spur economic growth, reduce economic volatility, and halt the trends toward worsening income distribution and increasing poverty.” Thus, for the IADB “it is correct to say that the reforms have worked in the direction desired by society.” However, it is also recognized that “they have not been sufficient for attaining the growth, stability, and social equity that society regards as acceptable” (p. 78). On the whole, it has been argued, that the original Consensus did not pay enough attention to three sets of issues: 1) the need for sound public institutions; 2) more effective social and social insurance policies; and 3) the imperative necessity to address the region’s extremely unequal distribution of income. At present, this last issue has been given particular importance by scholars, governments, and international financial institutions.

Joseph Stiglitz, for example, suggests redirecting economic policies toward a battle against the region’s problems of inequity and social injustice. He believes “governments need to—and can—adopt policies that help countries grow but that also ensure that growth is shared more equitably” (2002: p. xi). Similarly, Economist John Williamson, “who is credited by many with coming up with the Washington Consensus set of policy recommendations, is reportedly drafting a revised version which will address poverty and other social issues, and will include a proposal for making Latin American countries less vulnerable to crises.”²⁷ In their *Washington Contentious*, Birdsall and de la Torre argue: “...times have changed. Policy makers in Washington and Latin America no longer hold

27 *Latin America Advisor* (Tuesday, November 12, 2002):p. 1

equity in contempt. A new and overriding objective has emerged: to reduce poverty and improve equity without sacrificing growth. In the rhetoric, at least, poverty reduction and equity now dominate” (p. 3).

In general, these people consider that in order to reach acceptable levels of growth, political and economic stability, and to reduce poverty and inequity effectively in the region, economic reforms must be complemented with social reforms, reform of the state, and improvement of institutions. In fact, it has become apparent that stronger and more effective institutions are urgently needed to complement macroeconomic policy changes. Thus, the general recommendations include, among others: a) to deepen market reforms; b) to reduce sources of volatility; c) the greater accumulation of human capital; and d) the broadening of the range of tools for fighting poverty, inequity and social injustice.

Notwithstanding the last, if one looks more carefully at the political and economic situation in Latin America—and not only at the reports and statistics presented by the governments of each country and the international financial institutions—one could notice a less favorable panorama and greater risks for the future stability of the region. It seems then that the most popular critiques of the “Washington Consensus,” like those of Stiglitz and the authors of the *Washington Contentious*, do not provide a complete account of the reality in Latin America. And what’s more, they appear to be limited in terms of the recommendations they provide.

At the same time, it can be argued that their points of view do not account for any substantial change in the basic framework of the “Washington Consensus.” Moreover, the recommendations provided are more prone to match the “new rhetoric” with the policies and programs already in place. Petras would consider such analysts as “pragmatists, who essentially advocate piecemeal redistributive reforms within the parameters of neoliberalism” (1999: p. 5).²⁸ Similarly, for Chakravarthi Raghavan, editor of *Third World Economics*, these people are just “talking of the Washington-plus, of a new development

framework, which unfortunately in essence appears to be just old vinegary wine in new bottles, with a different 'appellation of origin'—some cosmetic external add-ons.”²⁹

Certainly, there are some fundamental transformations that need to be furthered in the agenda itself. Leftist critics seem to provide some important insights about the real economic and political situation prevalent throughout the region—and, what is more, about those aspects related to U.S. hegemony, and the particular economic interests of transnational corporations. In fact, such accounts highlight crucial weaknesses inherent to what is called the neoliberal model. They also identify basic limitations in the advancement of political and economic reforms—which are not always explained or taken into account by the most popular views.

The main question here is whether democracy is compatible with free markets in Latin America. The answer depends on the extent to which the new economic reforms will guarantee development, social justice and less inequality. Democracy in Latin America must coincide then with some kind of redistribution. Pragmatists' suggested strategies to reduce poverty, promote equity, and strengthen the institutional framework are important, but not enough. Really serious efforts must be made to foster development, reduce inequality, and ameliorate social distress in the region. Piecemeal redistributive reforms will be useless for reducing the risks of authoritarian reversions. To begin with, it is crucial to further measures such as: the promotion of participatory democracy; higher taxes to finance greater social spending—such increases should be mainly directed to the rich and big transnational corporations, who must tolerate lower profits—; land reform in those regions where it is still relevant; urban reform in other areas; advancement of labor rights; and the promotion of labor mobility.

Labor mobility is a critical issue in any discussion about economic reform, development and equity across the region. In their critiques of the “Washington Consensus,” the

28 It is worthwhile mentioning that Joseph Stiglitz is more radical in this sense; his criticisms of the “Washington Consensus” are quite stringent. However, he also doesn't challenge the fundamental principles of the neoliberal model itself.

“pragmatists” don’t push seriously for greater labor mobility across the region. They do recognize the fact that the rights and position of labor have been undermined during the process of economic reform. However, their recommendations are mainly focused on productivity growth, competitiveness and simplification of the legislative and regulatory framework (“labor law reform”). This would not necessary benefit workers, but on the contrary, could worsen inequalities already existent in the labor markets through the elimination of fundamental legal provisions that do protect workers against the abuses of corporate power. Thus, the solution could be instead to allow workers to negotiate collectively through the organization of truly independent labor unions.

It is of foremost importance to put certain limits to the indiscriminate power of transnational corporations. After a decade and a half of structural reforms, private sector monopolies have indeed replaced public sector ones. Microeconomic theory demonstrates to what extent monopolies are inefficient and detrimental to equality. Monopolies are not beneficial for society in general. Therefore, they must not only be regulated, but also limited when possible. However, it seems that an important sector of Latin American elites, together with U.S. multinational banks and corporations continue to maintain that under no conditions will they accept any reduction in their wealth and power. Here is where the role of national states is fundamental. I understand that statism and populism are not the answer to the problems in the region, but if the market and private businesses are not enough to guarantee efficient and equitable solutions, then the state must actively participate. Supporting this view, Oxhorn and Starr (1999) observe:³⁰ “Latin America’s developing markets tend to produce perverse incentives that can undermine efficiency, generate vulnerabilities, hinder the development of human capital, and distort the distribution of wealth. The Latin American state thus must develop the capacity to regulate markets in [an] essential way to minimize the human and economic costs...and thereby promote complementarity rather than conflict between markets and democracy.”

29 Quoted in Martin, Brendan (2000), “New Leaf or Fig Leaf? The Challenge of the New Washington Consensus.” *Bretton Woods Project*: March 2000.

30 *Op. Cit.*, pp. 250-251.

The promotion of redistributive measures operating through democratic channels is crucial. “Pragmatists” seem to forget that political stability might be under risk. They seem confident about the solution of current problems through conservative and quite limited strategies. But, if one analyzes carefully the political and economic situation in Latin America—without relying solely on the World Bank or IADB’s reports—one may arrive to the conclusion that urgent actions should be taken in order to lessen violence, armed uprisings, crime and drug trafficking. Hence, the main challenges for Latin American governments at present are to improve the living conditions of the general population, and thus prevent what Castañeda refers to as “armed chaos” and “popular fundamentalism.” After this analysis, I wish to conclude with a quote of Petras and Veltmeyer: *“The paradox of the current period of right-wing rule is that while economic exploitation and misery deepen, the Right will continue to play by the “democratic rules.” However, if the popular movements seriously challenge the conditions of exploitation, history teaches us that the Right will most likely shift from free markets and elections to free markets and machine guns”* (2001: p 154).

Appendix A. Poor and Indigent Households (percentage of total households)

Country	Year	Poor households a/	Indigent households b/	Country	Year	Poor households a/	Indigent households b/
Argentina	1980	5 d/	1 d/	Honduras	1990	75	54
	1990	16 d/	4 d/		1994	73	49
	1994	10 d/	2 d/		1997	74	48
	1997	13 d/	3 d/				
Bolivia	1989	49 c/	22 c/	Mexico	1977	32	10
	1994	46 c/	17 c/		1989	39	14
	1997	47 c/	19 v/		1994	36	12
			1998		38	13	
Brazil	1979	39	17	Nicaragua	1997	66 c/	36 c/
	1990	41	18				
	1993	37	15				
	1996	29	11				
Chile	1987	39	14	Panama	1970	13	9
	1990	33	11		1979	36	19
	1994	23	6		1991	36	16
	1998	18	5		1994	30	12
				1997	27	10	
Colombia	1980	39	16	Paraguay	1986	46 d/	16 d/
	1991	50	23		1990	37 d/	10 d/
	1994	47	25		1994	35 d/	10 d/
	1997	45	20		1996	34 d/	8 d/
Costa Rica	1981	22	6	Peru	1979	46	21
	1990	24	10		1986	52	25
	1994	21	8		1995	41	18
	1997	20	7		1997	37	18
Ecuador	1990	56 c/	23	Dominican Republic	1997	32	13
	1994	52 c/	22				
	1997	50 c/	19				
El Salvador	1995	48	18	Uruguay	1981	9 c/	2 c/
	1997	48	19		1990	12 c/	2 c/
					1994	6 c/	1 c/
			1997		6 c/	1 c/	
Guatemala	1980	65	33	Venezuela	1981	22	7
	1989	63	37		1990	34	12
					1994	42	15
					1997	42	17
Latin America e/	1980	35	15				
	1990	41	18				
	1994	38	16				
	1997	36	15				

a/ Percentage of households having incomes amounting to less than twice the cost of a basic food basket. Includes indigent households.

b/ Percentage of households having incomes amounting to less than the cost of a basic food basket.

c/ The sample includes only poor/indigent urban households.

d/ The sample includes only poor/indigent households in the Metropolitan area.

e/ In addition to the 18 countries shown includes Haiti.

SOURCE: ECLAC (2002), *Statistical Yearbook for Latin America and the Caribbean*.

Appendix B. Distribution of Income in Urban Households by Quintile (percentages)

a/

Country	Year	Quintile 1 (poorest)		Quintile 2	Quintile 3	Quintile 4	Quintile 5 (richest)	
		Decile 1	Decile 2				Decile 9	Decile 10
Argentina b/	1980	2.8	4.0	10.6	15.7	21.7	14.4	30.9
	1990	2.3	3.9	8.7	14.2	20.9	15.2	34.8
	1994	2.1	2.9	8.8	14.1	21.0	16.9	34.2
	1997	2.1	3.3	9.5	13.4	19.9	16.1	35.8
Bolivia	1989	0.7	2.7	8.7	13.1	20.6	16.1	38.2
	1994	2.0	3.4	9.8	13.5	19.8	15.9	35.6
	1997	1.6	3.1	9.0	13.6	20.5	15.3	37.0
Brazil	1979	1.3	2.6	7.9	12.2	20.0	16.9	39.1
	1990	1.1	2.2	7.0	11.1	19.4	17.4	41.8
	1993	1.2	2.6	7.8	10.9	18.2	16.1	43.2
	1996	1.1	2.3	7.2	10.4	18.2	16.6	44.3
Chile	1987	1.6	2.8	8.3	12.8	19.4	16.5	39.6
	1990	1.7	3.0	8.7	12.1	18.7	15.8	39.2
	1994	1.7	3.0	8.7	12.4	18.7	15.2	40.4
	1998	1.7	3.0	8.7	12.4	19.4	15.8	39.1
Colombia	1980	0.9	2.5	7.6	11.3	18.9	17.5	41.3
	1991	2.0	3.6	10.4	14.9	21.6	15.6	31.9
	1994	1.1	2.6	7.9	12.4	18.9	15.3	41.9
	1997	1.4	2.9	8.6	13.0	19.3	15.2	39.5
Costa Rica	1981	2.3	4.5	12.1	16.7	24.5	16.9	23.2
	1990	1.6	4.1	12.1	17.0	24.5	16.1	24.6
	1994	1.9	3.9	11.6	16.4	22.7	16.0	27.5
	1997	1.9	4.2	11.3	16.8	23.7	15.4	26.8
Ecuador	1990	2.1	3.8	11.3	15.5	21.5	15.3	30.5
	1994	1.5	3.5	10.6	15.8	22.2	14.7	31.7
	1997	2.3	3.5	11.2	15.1	21.6	14.4	31.9
El Salvador	1995	2.1	4.1	11.1	15.3	21.4	14.3	31.7
	1997	2.1	4.0	11.1	15.2	21.3	15.2	31.1
Mexico	1984	3.2	4.7	12.3	16.8	21.9	15.4	25.8
	1989	2.5	3.7	10.1	13.4	19.0	14.4	36.9
	1994	2.9	3.9	10.0	13.9	19.7	15.3	34.3
	1998	2.8	4.0	10.5	13.6	19.3	15.1	34.8
Paraguay	1986	2.2	3.6	10.6	14.5	20.2	17.1	31.8
	1990	2.7	4.1	11.8	15.7	21.4	15.4	28.9
	1994	2.4	3.7	10.1	13.6	20.4	14.6	35.2
	1996	2.6	3.9	11.0	15.1	19.8	14.6	33.1
Uruguay	1981	2.7	4.1	10.9	14.7	21.2	15.2	31.2
	1990	3.5	4.7	11.9	15.4	19.9	13.3	31.2
	1994	3.7	5.2	12.8	16.8	21.5	14.6	25.4
	1997	3.7	5.3	12.9	16.5	21.1	14.6	25.8
Venezuela	1981	2.5	4.4	13.2	17.1	24.9	16.0	21.8
	1990	2.0	3.7	11.1	15.9	22.8	16.2	28.4
	1994	2.5	3.7	10.5	15.6	21.3	15.0	31.4
	1997	1.8	3.2	9.7	14.4	21.4	16.8	32.8
	c/							

a/ Classified according to per capita income.

b/ Refers to the Metropolitan area.

c/ Refers to national total.

SOURCE: ECLAC (2002), *Statistical Yearbook for Latin America and the Caribbean*.

Appendix C. The Washington Contentious: 10 + 1 Tools for Social Equity

1. Rule-based fiscal discipline	Fiscal indiscipline has high costs for the poor and the emerging middle class. Commitment to fiscal discipline must go beyond idiosyncratic efforts to a healthy budget grounded in transparent rules and procedures.
2. Smoothing booms and busts	Booms are better for the rich, busts worse for the poor. Fiscal and monetary policies and tough banking and other financial standards to manage volatility and minimize crisis cannot be improvised. They should be locked in when times are good.
3. Social safety nets that trigger automatically	A modern system provides an income floor for working and middle class households as well as the poor. During slumps, spending should kick in automatically for emergency public works employment and subsidies to families to keep their children in school.
4. Schools for the poor, too	Today's centralized systems reinforce inequality. Critical reforms include more school autonomy, lower subsidies to the better-off for higher education, and more public spending on preschool programs. Education policy must embrace the Internet, with public subsidies to ensure that every school and every community benefits from this revolution in access to knowledge.
5. Taxing the rich and spending more on the rest	The region relies heavily on consumption taxes that are regressive. Closing income-tax loopholes and reducing evasion would increase revenues without adding to the tax burden of working and middle-income households.
6. Giving small businesses a chance	Weak financial and judicial systems and onerous red tape block small entrepreneurs from expanding their businesses. Improved enforcement of credit contracts and shareholder rights, the end of insider credit from state-owned banks, and access to information and professional services would help create more small firms and more jobs.
7. Protecting workers' rights.	The poor bear the cost of a job-contracting environment that has too little worker protection and too many legal rules. Latin America needs more aggressive protection of workers' rights of association and collective bargaining, more independent and democratic unions, and more social protection to replace inflexible rules that discourage job mobility and growth..
8. Dealing openly with discrimination	A serious attack on poverty and inequality has to include a visible attack on discrimination. Political leadership can help break down the social and political barriers that hurt blacks and members of indigenous groups-and, in some arenas, women.
9. Repairing land markets	A new generation of land reform programs can make rural land markets truly competitive-finally giving the rural poor a fair chance. The new approach emphasizes credit and community involvement and relies less on centralized bureaucracy.
10. Consumer-driven public services	Shortcomings in infrastructure, public health, and such regulatory services as consumer protection have cost the poor and the near-poor dearly. Poor and other low-income consumers must now be at the heart of a new culture of service delivery.
Plus 1. Reducing rich-country protectionism	Rich countries' barriers to agriculture and textile imports aggravate poverty and reinforce inequality in Latin America. Lowering them will do the reverse.

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