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The Washington consensus: a Latin American perspective fifteen years later

Abstract: *The paper analyzes the economic and social development of Latin America after nearly two decades of macroeconomic policies and reforms in line with the "Washington Consensus." It shows that these policies lowered inflation and induced an export boom but failed to boost domestic investment and to remove the balance-of-payments binding constraint on the region's long-term path of economic expansion. Four alternative explanations of such poor performance of the Washington Consensus are compared. In particular, the paper argues that, contrary to mainstream opinion, in Latin America, there is no clear association between the depth of macroeconomic reforms and economic growth performance.*

Key words: *alternative development policies, macroeconomic reform, Washington consensus.*

The origin and legitimacy of the Washington Consensus—the famous decalogue of allegedly best practices on macroeconomic policies as identified by John Williamson[1]—must be traced back to the international debt crisis of the 1980s, inaugurated by Mexico's default in 1982. This crisis was triggered by the reversal in the net financial transfers to Latin America, linked to a sharp increase in its foreign debt service combined

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[1] John Williamson introduced the term in 1989. For an updated, modified revision, see Williamson (2004–5, pp. 195–206).

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with severely restricted access to external finance and the deterioration in its terms of trade. Such external shocks brought about critical disequilibria in the regions' balance of payments and fiscal accounts and the resumption of inflation.

All across the region, the immediate response of policy-makers to this crisis was the application of macroeconomic stabilization programs based on fiscal and monetary restraint. Some countries in the Southern Cone region relied instead on income policies and the use of a, somewhat, fixed exchange rate as a nominal anchor to abate inflationary expectations. In any case, the results were far from stellar. On one hand, these initiatives succeeded in lowering inflation and eliminating external and budget deficits. But such results were accompanied, and to a certain extent caused, by the slowdown in the region's economic activity that lasted nearly ten years, a collapse in formal employment, and a significant increase in poverty and in the concentration of income. In fact, the region's average real gross domestic product (GDP) per capita actually declined during the 1980s, leading to these years being labeled as the "lost decade" in Latin America's economic development.

An additional, and more fundamental, response to the crisis was to implement a radical shift in the paradigm of development, as the international financial institutions (IFIs) and many governments interpreted Latin America's economic collapse in the 1980s as proof that its previously followed strategy—based on import substitution and state-led industrialization—had reached a point of exhaustion. From a simplistic perspective, Latin America's balance-of-payments crisis was attributed to trade distortions brought about by protectionism and import substitution policies. Similarly, the fiscal imbalances were seen as ineludible by-products of activist industrial policies and subsidies.[2] Consequently, by the early 1990s, radical macroeconomic reforms were carried out in virtually the whole continent to eliminate trade protectionism, deregulate and liberalize financial and other key markets, privatize state-owned firms, and cancel subsidies and any type of activist industrial policies. These reforms were rooted in the basic presumption that, by shrinking

[2] As has been argued, "what eventually drove many import substituting countries to ruin were not microeconomic inefficiencies, but macroeconomic imbalances and the inability to correct them with sufficient speed" (Rodrik, 1996, p. 16). Conventional assessments of import substitution policies include those of Edwards (1995), Krueger (1978), Ranis (2004), and Thomas et al. (1991). Critical analyses of the mainstream perspective on trade policies are found in Díaz-Alejandro (1975), Rodríguez and Rodrik (2001), and, from a Latin American perspective, in Cárdenas et al. (2000).

the size of the state and thus placing the private sector and market forces at the center of the investment and resource allocation processes, Latin America's productive structure would be transformed to be more efficient and competitive. And, thus, the region would be able to enter a path of high and sustained economic growth led by exports.

The purpose of this paper is to give an assessment of the "Washington Consensus" from a Latin American perspective, after nearly 15 years of following its approach on structural reforms and stabilization policies.

Latin America's economic growth and structural reforms

The stabilization policies and macroeconomic reforms implemented in Latin America in the late 1980s and 1990s—under the Washington Consensus guidelines—were successful in reducing inflation and fiscal imbalances. Inflation in the region as a whole has followed a downward trend since the late 1980s, and the few hyperinflation episodes were brought under control. Moreover, since 1998—and with the sole exception of 2002—the average annual increase in the region's consumer price index has been below 10 percent. The public sector has been significantly downsized in most countries, cutting down the scope and scale of its direct interventions in the allocation of resources, production, and trade. Fiscal deficits have been considerably reduced. In 1982–84, their average magnitude was equivalent to approximately 8 percent of the region's GDP. By 1991, after falling systematically for various years, their average was virtually a zero balance. Although fiscal deficits have increased since then, by 2002–3, with few exceptions—such as Bolivia, Colombia, and Honduras—the central government's deficit was under 4 percent of GDP (see ECLAC, 2003a; 2004b).

The achievements on the stabilization front were not accompanied by the resumption of sufficiently high and stable economic growth. Indeed, although in the 1990s the vast majority of Latin American economies managed to leave behind the stagnation experienced during the ten previous years, the average rate of expansion has been slow and far from stable. Measured in constant U.S. dollars, the region's real GDP increased at an average annual rate of 3.3 percent during 1990–2000. Such performance, though a marked improvement with respect to the 1.1 percent annual average registered in the 1980s, was much slower than the average annual rate of 5.5 percent registered during 1950–80.

Latin America's limited economic growth in the past 10 to 15 years of structural reforms is perhaps more clearly evidenced by looking at the cross-country evidence. With the exception of Chile, during 1990–2003, practically all other economies in the region grew in real terms at a slower pace than during 1950–80. Such less dynamic performance is mirrored also in the comparison of the evolution of labor productivity during the 1990s and during the three decades before the debt crisis. With very few exceptions, Chile included, labor productivity expanded at a faster pace during 1950–80 than in the 1990s (see ECLAC, 2001).

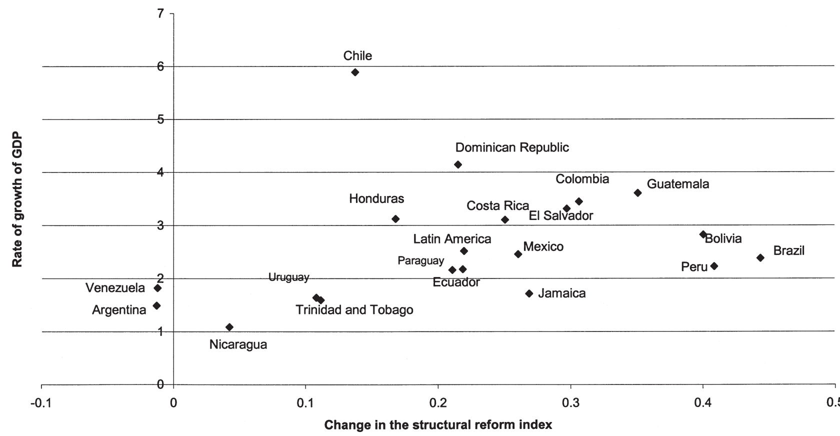
In addition, Latin America's pace of economic expansion since 1990 has suffered three sharp interruptions. The first was the result of the balance-of-payments crisis of the Mexican economy in 1995, and its contagion effects on other countries in the region. The second interruption, in 1998–99, originated because of the repercussions of the Asian crisis on the international capital markets and the flow of funds and foreign direct investment (FDI) to the developing world. And finally, in 2001, Latin America's economic recovery lost steam, affected by the slowdown of the U.S. economy. Especially worrying have been the recent crises in the Southern Cone, among them the implosion of the Argentinean economy as its experiment with an allegedly "super-fixed" exchange rate went dramatically sour. Moreover, in the past six years (1998–2003), on average, Latin America's per capita GDP has decreased in real terms.

Clearly, and notwithstanding the macroeconomic reforms, in the past two decades, Latin America has been unable to catch up with the developed, fully industrialized world. In 1980, Latin America's per capita GDP in real terms was equivalent to 29.1 percent of the U.S. average. Ten years later, and due to the severe recession suffered in these years, the gap had widened, and the corresponding figure was 21.8 percent. By 1998, such proportion was even lower at 21.2 percent. And, given the reduction in Latin America's real per capita GDP during 1998–2003, it may safely be estimated that the gap has widened 1 or 2 percentage points, likely falling between 19 percent and 20 percent.

Figure 1 compares the change in the rate of GDP growth with that of a structural reform index between 1985 and 2002 for 19 Latin American and Caribbean countries.[3] The index ranges from 0 to 1; the higher its value, the greater the changes in policy reforms toward market liberalization. In this sense, it may be important to point out that practically all the Latin American and Caribbean countries reported here have regis-

[3] The structural reform index, originally developed by Lora (2001), reflects the movement of key variables in five reform areas: (1) trade policy, (2) financial policy, (3) tax policy, (4) privatization, and (5) labor legislation. For more details, see Appendix Table A1.

Figure 1 Change in the structural reform index and real GDP growth in Latin America and the Caribbean, 1985–2002



tered an increase in the structural reform index from 1985 to 2002. In fact, during this period, the regional average for Latin American and Caribbean countries increased from 0.34 to 0.58.

As shown by the cross-country data, and at least for 1985–2002, there is no clear relationship between the change in the structural reform index and the rate of growth of real GDP. Contrary to the simplistic, conventional assumptions underlying the reform processes, the data collected here do not support the hypothesis that the countries that more intensively implemented structural reform policies—as measured by the change in the structural index—were the ones that achieved faster rates of economic growth. However, the annual rate of growth of most countries for the same period has remained below 4 percent, which illustrates the fact that greater market efficiency policies implemented from the 1980s onward have not been able to deliver rates of economic growth that even compare to those of earlier decades.

Foreign trade performance and economic growth

Paradoxically, a boom in its exports accompanied this lack of dynamism in Latin America's economic recovery. Indeed, an unquestionable achievement of the structural reforms has been the surge in exports in most of the region. During the 1990s, they grew at a 9.1 percent average annual rate in real terms, more than doubling the 3.8 percent registered during the 1950–80 period. By the late 1990s, exports already represented slightly more than one-fifth of Latin America's domestically produced output.

On a world scale, in these years, a faster expansion of exports was achieved only by China and a select few Asian countries.[4] The surge in exports has been brought about by a certain transformation in their structure, with two rather distinct patterns having emerged in the region. On one hand, Mexico and Central America have tended to increase the share of manufactures in their exports, mainly through the output of their in-bond plants concentrating their sales to the United States. On the other hand, many economies in South America tended to increase the already large proportion of their exports of goods produced through the intensive use of natural resources. And their foreign sales are less oriented to the U.S. market, focusing more on the intraregional and, to a certain extent, the European markets.

This surge of exports, however, was accompanied by a massive penetration of imports. From 1990 to 2000, in real terms, imports expanded at an average annual rate of 10.7 percent. The intensity of their rhythm of penetration into the regional market was so high that roughly one-third of the expansion of total aggregate demand in Latin America that took place in the 1990s was satisfied through imported goods and services. Moreover, a simple measure of the implicit income elasticity of imports gives, for the 1990s, an average figure of 3.3 for Latin America, three times larger than the 0.91 typical of the import substitution years of 1950–80.[5]

A high rate of expansion of imports was no doubt expected as a by-product of the trade liberalization process, especially after so many decades of protectionism. However, the intensity and pervasiveness of this phenomenon in Latin America may likely also be due to the tendency to appreciate the real exchange rate. And, more worrisome, it also reflects the rather weak backward and forward linkages of its export sectors, as well as disappearance of certain groups of domestic suppliers that were unable to compete with imported goods. To the extent that the above-mentioned linkages are not strengthened—through, for example, increased capabilities for technological innovation—the role of exports as

[4] For an analysis of the relation between the technological structure of exports, the catch-up process, and the long-term economic growth of Latin America, see Cimoli and Correa (2003).

[5] See Figures 2 and 3, as well as Appendix Table A2. Econometric estimates of the income and price elasticities of imports of selected Latin American countries and their relation with the balance-of-payments constraint on their long-term rate of economic growth can be found in Pérez and Moreno-Brid (2000) and Escaith (2004).

Figure 2 Change in the annual rate of growth of real GDP and exports between 1970–1980 and 1990–2000

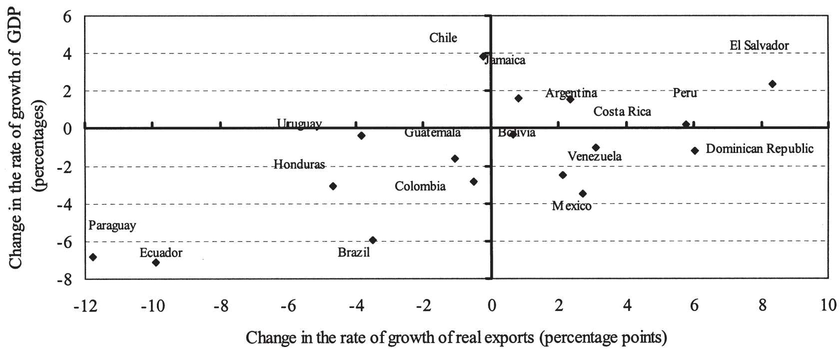
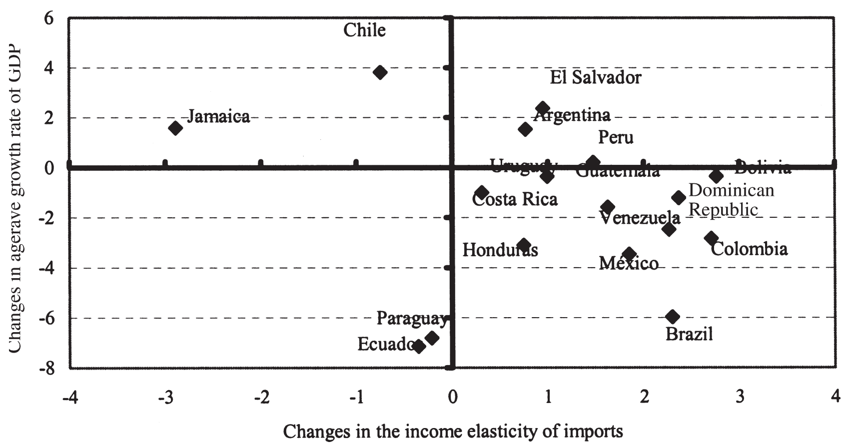


Figure 3 Changes in the growth rate of real GDP and in the income elasticity of imports between 1970–1980 and 1990–2000



Latin America's engine of growth is severely curtailed.[6] Such limitation is illustrated, for example, by the comparative evolution of Mexico and Korea's manufacturing sectors in terms of exports and of value added. Indeed, as UNCTAD (United Nations Conference on Trade and Development) has recently shown, exports of manufactures in both countries have been very dynamic. However, the rate of expansion of value added

[6] See UNCTAD (2003) for a critical comparison of export performances of Mexico and Korea.

by Korea's manufacturing sector has been very high, in contrast to the rather sluggish performance of Mexico's industry in this matter.

Latin America's structural reforms have not been able to alleviate the external constraint on its long-term economic growth. During 1950–70, the region's GDP grew at average annual rates of 6 percent in real terms with a trade deficit averaging approximately 1 percent of GDP. In the 1990s, a comparable trade deficit was compatible with an average annual rate of expansion of GDP of only 3 percent; half of what it was before the debt crisis. (See Ocampo, 2004–5, this issue, pp. 293–314; and for an in-depth analysis of the Mexican case, see Moreno-Brid, 2001.)

Domestic fixed capital accumulation and foreign direct investment

Another reason behind the failure of the process of reforms to insert Latin America in a path of strong and sustained expansion has been its weak domestic capital formation. The ratios of investment to GDP in the region have not increased in a significant way during the 1990s. They remain, in general, way below the 25 percent minimum that UNCTAD has identified as necessary to launch and sustain a process of high and sustained growth in less-developed countries.[7] Such lack of investment impedes the modernization of productive equipment and machinery, indispensable for Latin America in order to be able to successfully compete in the global markets. At the same time, it also limits the expansion of domestic demand.

The disappointing performance of investment is a reason for concern over Latin America's future economic growth and brings ill news for the economic security of its population. What are the causes behind such a disappointing investment performance?[8] The reforms were adopted in stagnating economies, with severe limitations for access to foreign and domestic capital and finance. It is true that up to the last years of the 1990s, FDI and other capital massively entered the region, but its dynamism was short lived. It lost momentum due to the Asian crisis in the late 1990s and the collapse of the bubble in the U.S. stock market. Another more fundamental cause of the decline in FDI to Latin America was the end of the main privatization processes and prospects in the region. In any case, foreign capital flows were incapable of compensating for the weak performance of domestic investment. It is past time to

[7] See UNCTAD (2003).

[8] For an in-depth study of investment in Mexico after economic reforms, see Máttar et al. (2003).

give attention to the long-standing problem of Latin America's elite failure to invest domestically in a significant way; a failure that places the region at the mercy of international financial markets or volatile external capital flows seeking rapid short-term returns in the financial sector.

In addition, the reduction of public investment—purposely brought about by the reform processes—had an adverse effect on private investment in Latin America, as "crowding-in" effects between public and private investment have been more relevant than the "crowding-out" effects. Moreover, the elimination of industrial policies and sectoral incentives had a negative effect on manufacturing investment, a sector that had been traditionally heavily protected and subsidized during the import substitution and state-led industrialization phase. Finally, the uncertainty inherent to any radical change in development strategy was not favorable to private investment and led to the postponement or interruption of investment projects by the local business community.

Such weak performance of investment was accompanied by a shift in policy priorities. Fundamental preoccupations are now the control of inflation and the reduction of fiscal deficits. These priorities displaced the previous concern placed on the extremely relevant issues of promotion of investment and efficient use of installed capacity, employment generation, and exploitation of the potential of the domestic market. Moreover, the prevailing view that most, if not all, state's interventions in the economy are a source of distortion puts economic growth as the exclusive result of changes in the microeconomic policy packages and business climate. Such a view has led to a generalized reduction in public investment and a parallel and strong emphasis in the promotion of small and microenterprises to promote economic growth in the region. This new strategy has so far failed. Open unemployment is currently at its highest historical average in the region.

Social development: poverty and income distribution

The lackluster performance of Latin America in terms of economic growth in the past 20 years is mirrored in its social indicators.[9] Perhaps the most dramatic is the increase in the proportion of poor population. In 2003, according to the United Nations data, 225 million Latin Americans were poor, and among them, 100 million lived in conditions of

[9] Parts of this section borrow from an unpublished draft by Hersberg and Moreno-Brid (2003).

extreme poverty.[10] By then, the incidence of poverty in the region was 43.9 percent and extreme poverty was 19.4 percent, higher than the figures for 1980—40.5 percent and 18.6 percent, respectively. Moreover, by 2002, with the exception of Chile and the Dominican Republic, no country in the region could be seen as on track to meet the Millennium Development Goals (MDGs) adopted by the United Nations regarding the reduction of the incidence of poverty and extreme poverty by 2015 to half the percentages registered in 1990. Furthermore, the Dominican Republic's economic crisis in 2003 might have also reversed some of its achievements. On this front, Nicaragua, Honduras, and Haiti—the poorest countries in the region—show virtually no progress. And the most dismal performances have been those of Argentina and Venezuela, having actually experienced an increase in the incidence of poverty and of extreme poverty during 1990–2002.

Latin America's appalling track record in the quest to reduce poverty is closely related to its extremely high rate of concentration of income, being perhaps one of the highest in the world. It is somewhat shocking that by the end of the 1990s, the 10 percent richest households in Brazil held 50 percent of national income, while the 40 percent poorest's share was close to 10 percent. In Chile, allegedly the most modern and dynamic economy in the region, the share of national income of the 10 percent richest households was close to 40 percent, and that of the 40 percent poorest ones was under 15 percent. The data for Mexico, Argentina, and most other large economies in the region show comparably acute degrees of income concentration. Particularly worrying is that, with few exceptions, income concentration did not decrease during 1999–2002 in most Latin American countries.[11]

One of the reasons that income concentration has not diminished and that social conditions for the majorities have not sufficiently improved is rooted in the changing dynamics of the labor market. Latin America has not been able to create enough jobs to meet the increasing demands of the labor force. In recent years, open unemployment reached its highest historical average in the region as a whole, and in various countries. The available data indicate that during the 1990s, very few formal jobs were created in net terms. Moreover, 70 percent of all jobs created these years were in the informal sector; that is, they lacked even the very minimum elements of social security and protection. In turn, the wage gap between the skilled and the unskilled widened, as the supply of quality

[10] See ECLAC (2003b).

[11] Ibid.

jobs failed to keep pace with the expansion of the labor force. Migration became the only option for economic and social improvement for many families, not necessarily the poorest ones.

Recent estimates indicate that unless the trend toward income concentration is reversed, few countries in the region will be able to halve the incidence of extreme poverty by 2015, even if they manage to sustain high rates of economic expansion. Assuming that regional GDP expands in 2004–15 on average at its recent historical peaks, only El Salvador, Panama, Costa Rica, Peru, Brazil, and Mexico, besides the Dominican Republic and Chile, may meet the MDG of halving the incidence of extreme poverty.[12] Such assumptions for the rates of growth may be rather heroic given that Latin America, as a whole, experienced a reduction in its GDP per capita in real terms during 1998–2003. Thus, unless special measures are implemented to jump-start economic growth, and reduce poverty, a likely scenario may be a sharp and widening divide between the haves and the have-nots in the region, with critical economic deprivation for vast majorities of its poor population.

Why did the Washington consensus fail?

Three basic pillars guide the policy prescriptions of the Washington Consensus: privatization, liberalization, and macroeconomic stability (Stiglitz, 2002; Williamson, 2002). These three guidelines, if carried out properly, were assumed to produce growth and development by means of promoting exports, inducing private investment, and attracting FDI. As shown by the empirical evidence presented above, the actual outcome in terms of both economic and social development has not lived up to its promise.

One important approach to this question is that from Williamson, who, after admitting that the Washington Consensus policies did not work out as expected in most Latin American countries, who charges this failure to (1) the way the policies were applied in each country, (2) the incompleteness of the reforms, and (3) the fact that the package of policies did not include those required to improve income distribution without reducing growth (Williamson, 2002).

The first cause of the Washington Consensus failure is attributed, according to Williamson, to the fact that Latin American policy-makers did not prevent financial crises, such as the Mexican crisis, brought about

[12] See IPEA et al. (2002).

"by opening up the capital account prematurely and letting money flood in and overvalue the currency" (ibid., p. 3). They also did other "foolish things," of which they were not warned in the Washington Consensus, but they were not obliged to do such things either. Williamson thinks this was so because countries adopted the Washington Consensus as an ideology, so he warns them not to do it. The second cause of failure is due to the fact that the policies were incomplete in the sense that first-generation reforms were either neglected (like labor market reform) or incomplete (like fiscal reform), and, therefore, the second-generation reforms were still pending. And the third cause of failure was that the scope of the Washington Consensus policies was very narrow, so that its concern was merely with income growth and not with its distribution. Therefore, more policy measures, especially those aimed to improve income distribution, are needed to be included in the Washington Consensus package "as a complement not a substitute" (ibid., p. 3).

Ffrench-Davis (2000), analyzing the performance of economic reforms in Latin America in the 1990s, finds that while there is wide recognition among political leaders in the region as to the benefits of reforms in reaching macroeconomic stability and increasing exports, there are critical questions concerning of their effects on growth and development. He stresses three main problems: (1) "balances" in some sectors are reached at the expense of acute imbalances in others; (2) macroeconomic policies failed to achieve convergence among the resumption of growth in rapid effective demand and the increase in domestic productive capacity, and thus, new unsustainable disequilibria emerged in the trade balance; and (3) dissatisfaction is rising in broad sectors of the population with the policies implemented and the extremely uneven distribution of income, power, and opportunities. Ffrench-Davis also underlines the excess of ideological influences in the implementation of economic reforms, an attitude that he identifies as "too naive neoliberalism, too little pragmatism" (ibid., p. 2).

For Stiglitz, the failure of the Washington Consensus policies was due not only to the ways policies were implemented (i.e., sequencing and intensity), or their incompleteness (especially disregarding the need for improving income distribution), but also, and mainly, because such policies were incorrectly designed and thus unable to simultaneously achieve price stability, economic growth, and social development. In order to make it clear, Stiglitz compares the macroeconomic policies implemented in Latin America—geared mainly to price stability—and the policies followed in East Asia, aimed at achieving stability and economic growth.

Such different use of policy instruments led to different macroeconomic results (Stiglitz, 2002).

Rodrik (2003) considers a "Washington Consensus–plus," which comprises ten more policies, including some "second-generation" reforms. His comparison of policies and results over the past two decades between East Asian and Latin America concludes that Latin America, the region that most strictly followed the augmented "Washington Consensus–plus" package, had the worst results in terms of economic growth, productivity, and investment (ibid.). In his view, the reason behind this was that East Asian countries, including China, relied on nonstandard growth-promoting institutions. These institutions allowed them to achieve macroeconomic stability, the enforcement of property rights coupled with the implementation of market-oriented incentives. He argues that it does not matter whether the institutions utilized are orthodox or non-orthodox (from the point of view of mainstream economics), so long as they produce the desired results in terms of stability and growth.

To sum up, relevant analysts agree that Latin America certainly needed some economic reforms. The reforms applied, however, aimed at achieving macroeconomic stability, giving a larger role to market forces and private enterprise in the allocation of resources vis-à-vis the state, and trade and financial liberalization. There is wide agreement in the fact that Latin American countries followed the Washington Consensus policy prescriptions, and that policy-makers were too ideologized and little pragmatic. Finally, there is consensus that these policies failed to put Latin America in a path of strong and sustained economic development. The results are particularly disappointing when compared to those of East Asia.

Alternative proposals

Now we turn to the question of what is to be done in Latin America after the unobjectionable poor performance of the past 15 years under the Washington Consensus economic policy guidelines. Four key viewpoints can be identified: (1) the new institutional reform-oriented Washington Consensus position, represented by Williamson and the World Bank; (2) the revisited neoclassical position represented by Rodrik; (3) a neostructuralist pragmatic position represented by Ffrench-Davis, and (4) the new development agenda, as delineated by the Economic Commission for Latin America and the Caribbean (ECLAC) and Ocampo. We label these positions in this way just to differentiate them, but clearly, the authors may not necessarily agree with such taxonomy.

Deepening the reforms and institutional development

Williamson (2004–5, this issue) states that the Washington Consensus policies are still valid, with some adjustments to its agenda, including a second generation of reforms. In addition, he identifies a need for additional policies regarding five issues not included in the original consensus: "democracy, social progress, illegal drugs, the environment, and the policies of the rest of the world." The new agenda would be integrated by a number of policies under the following headings: (1) crisis-proofing; mainly anticyclical and stabilizing policies; (2) completion of first-generation reforms; liberalization of labor markets, full privatization of state-owned firms, and market access to industrial countries; (3) aggressive second-generation institutional reforms; and (4) reforms of the political system, the civil service, the judiciary, and the financial sector (Williamson, 2003b). Some of these are included in the "Washington Consensus–plus" (Rodrik, 2003).

Coincidental with this view is the position of one of the parties involved in the consensus—namely, the World Bank. In a conference sponsored by the World Bank in 1997 in Montevideo, called "The Long March" (of course not related at all to the famous Mao Zedong's crusade, except maybe as a way of mocking), the main document, called "Beyond the Washington Consensus: Institutions Matter," published in 1998 by the World Bank (Burki and Perry, 1998), presents what one presumes is the official position of the World Bank in the matter.

This position is very clear in stressing not to go back in any of the Washington Consensus policies but to go beyond first-generation reforms, complementing with some income distribution policies, and move quickly to the second-generation reforms, which consisted of policies toward the reformation of *institutions.* The term *institution* is defined as "formal and informal rules and their enforcement mechanisms, that shape the behavior of individuals and organizations in society." In other words, institutions are not organizations, which, in turn, are defined as "entities composed of people who act collectively in pursuit of shared objectives." World Bank analysts find there is a need to reform the rules that determine the nonprice incentives for the behavior of individuals and organizations, emphasizing rules that may solve information and enforcement problems in the areas of finance, education, justice, and public administration (ibid.).

The revisited neoclassical approach

In one of Rodrik's most recent papers on growth, one of his main arguments is "that neoclassical economic analysis is a lot more flexible than its practitioners in the policy domain have generally given it credit" (2003, p. 3). What he means is that the neoclassical economics principles are not necessarily tied to unique policy packages. Therefore, policy-makers in their respective countries have substantial room for pursuing objectives based on these principles, designing individual policies that take into account local constraints and take advantage of local opportunities. This seems to be one of the guidelines in the building of individual agendas for economic growth in Latin America. The other is that in order to make growth sustaining, it is necessary to plan "the construction over the longer term of a sound institutional underpinning to endow the economy with resilience to shocks and maintain productive dynamism" (Rodrik, 2003, p. 3). Thus, Rodrik is in favor of institutional reforms, mainly in the same crucial areas as the World Bank analysts, but he seems to propose more flexibility in the designing of the reforms, except maybe in what he calls meta-institutions, which are democratic institutions and civil liberties.

Reforming the reforms

Ffrench-Davis seems to take a pragmatic position between orthodox and arbitrary state interventionism. He considers that it is important to see the policy instruments as a means not as an end. His recommendation arising from his analysis of Latin American structural heterogeneity is to improve the working of markets, enhancing the role of longer-term horizons and productive factors. The target is an "endogenous development process guided from within." In this policy conception, Ffrench-Davis emphasizes regulating capital movements, exchange rates, and trade policy and enacting a productive development policy. The latter includes policies to develop and complete factor markets, in order to affect the resource allocation in favor of investment in machinery and equipment as well as in the improvement of human resources. These measures must be geared at making a more uniform distribution of productivity as well as of opportunities in the society and, consequently, will promote the creation of new comparative advantages.

The new development agenda

Ocampo (2002) argues that the failure of market liberalization to yield the promised growth and development results, and recent events, such as the response of the civil society to free trade proposals, that show a clear discontent with the Washington Consensus–type proposals, have spurred a constructive debate that promises to enrich the development agenda. With this in mind, and using old and new and alternative development concepts, he delineates a development agenda along five lines: (1) a more balanced form of globalization that recognizes the need to create institutions to correct some of most blatant existing asymmetries, such as the imbalance between the rapid pace of economic globalization and the absence of an international social agenda; (2) a broader view of macroeconomic policy that does not equate stability with permanent adjustment or with fiscal balance and low inflation and that provides room for countercyclical policy; (3) the need to outline policies for productive development as a "basic component of a dynamic, open, developing economy"; (4) the need to improve social equity, the creation of quality employment, and the reduction of structural heterogeneity, allowing policy to narrow the existing gaps; and finally, (5) a realization by policy-makers that the economic system should be subordinate to broader social objectives.

In practice, and in spite of the relevance of the proposals outlined above, we believe that there is still much to be done to create a new consensus on policy-making to promote economic growth and development in the semi-industrialized world. In our view, any road ahead must stop focusing on the domestic reforms and adjustment that developing economies should allegedly undertake. It should identify the conditions that rich countries and the international financial institutions should jointly create to promote faster and sustainable development for poor countries. Domestic reform and adjustment should stop being equated with orthodox macroeconomic policy prescriptions, and recognize much more the relevance of institutions and historical conditions, regulatory frameworks, and, in general, the need to have a strong but accountable role of the state in the allocation of resources.

Policy-makers should recognize that foreign trade performance is an important determinant of long-term economic growth in the region, but only if accompanied by strong domestic investment. Indeed, Latin American exports remain concentrated in a few commodities or goods with rather low technological content. As a result, their macroeconomic performance is acutely vulnerable to external shocks, such as variations in the terms of trade or natural phenomena. This contributes to the volatility of national and regional income. Stop-and-go episodes that lead to balance-of-payments crises are unfortunately still frequent in the region. In addition, the linkages of the export sector to the rest of the domestic industry are rather weak in most of Latin America. This situation is aggravated by the tendency to allow for the systematic appreciation of the real exchange rates. Combined with a high income-elasticity of imports, this leads to a binding external constraint that impedes the region from achieving high and sustained rates of economic expansion. As long as the external constraint is not alleviated, these economies will keep being unable to generate sufficient employment and, most important, to significantly improve the living conditions of the vast proportion of their population that lives in poverty.

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Statistical Appendix

Table A1
Variables included in the different reform areas considered in the structural reform index

Financial policy
1. Freedom of interest rates on deposits (on a discrete scale from 0 to 2).
2. Freedom of interest rates on loans (idem).
3. Real level of reserves of bank deposits.
4. Quality of banking and finance oversight (on discrete and subjective scale from 0 to 2).

Trade policy
1. Average tariffs (including surcharges).
2. The tariff spread.

Tax policy
1. Maximum marginal income tax rate on corporations.
2. Maximum marginal income tax rate on individuals.
3. Basic value-added tax (VAT) rate.
4. Productivity of VAT (defined as ratio between the basic rate and actual collection expressed as a percentage of GDP).

Privatization
1. The sums accumulated from privatization since 1988, including sales and other property transfers, as a proportion of average public investment between 1985 and 1987.

Labor policy
1. Hiring.
2. Costs of dismissal after one year of work.
3. Costs of dismissal after ten years of work.
4. Overtime pay.
5. Social security contributions.

Source: ECLAC (2004c), based on Lora (2001).

Table A2
Latin America and the Caribbean: supply and demand, 1950–2000 (average annual rates of growth, in percent)

	1950–1980	1980–1990	1990–2000
Demand (supply) total			
Latin America	5.47	0.99	4.20
Large economies	5.86	1.14	4.11
Medium economies	4.60	0.33	4.47
Small economies	4.76	0.86	4.56
Real GDP			
Latin America	5.47	1.16	3.27
Large economies	5.91	1.22	3.18
Medium economies	4.51	0.82	3.57
Small economies	4.57	1.12	3.54
Imports			
Latin America	5.10	–0.02	10.68
Large economies	5.12	0.73	11.74
Medium economies	4.68	–1.99	9.59
Small economies	5.72	0.15	7.65
Income elasticity of imports			
Latin America	0.93	–0.02	3.27
Large economies	0.87	0.59	3.69
Medium economies	1.04	–2.42	2.69
Small economies	1.25	0.13	2.16
Exports			
Latin America	3.76	5.26	9.12
Large economies	4.94	7.12	10.43
Medium economies	2.36	3.22	6.98
Small economies	4.94	2.29	6.12

Source: Authors' calculations based on data from CEPAL at constant U.S. dollars.
Notes: The group of large economies includes Argentina, Brazil, and Mexico; the medium economies include Colombia, Chile, Peru, and Venezuela; the small economies include Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, the Dominican Republic, and Uruguay.

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