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Latin American Perspectives, Vol. 25, No. 6. (Nov., 1998), pp. 47-51.

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by
James M. Cypher

> The Washington Concensus should become like democracy and human rights, a part of the basic core of ideas that we hold in common and do not need to debate endlessly.
>
> —John Williamson (1998, p. 111)

In the late 1980s, the term "Washington Consensus" served to encapsulate the crystallization of a paradigmatic shift in economic policy making regarding Latin America. The intellectual impetus behind the consensus view clearly flowed from Washington, the locus of the U.S. Treasury, the International Monetary Fund, and the World Bank. Equally important, the consensus encompassed key Latin American business elites and functionaries of the state apparatuses. Transnational corporations, particularly in the financial realm, used their extensive influence to consolidate a policy that promised to open virtually all areas of the Latin American economies to foreign investment and unrestrained financial flows across borders, including fluid repatriation of profits. Leading orthodox economists both in the United States and throughout Latin America urged deregulation of capital markets, free exchange rates, privatization of parastate firms, and "flexible" labor markets.

Ten years later, the neoliberal, free-trade, "market-friendly" policies of orthodox neoclassical economics have become the norm in virtually every Latin American nation. Increasing poverty, stagnant or falling real wages, and a further and steady widening of the distribution of income in virtually every nation has also become the omnipresent and largely ignored social context of the neoliberal era. In Chile, the one exception of any consequence, per capita income increased by 49 percent from 1986 to 1996, yet workers' wages increased by a relatively modest 19 percent (Riveros, 1997: 42). For Latin America's non-Chilean population, 97 percent of the total, whatever meager success that could be uncovered in Chile was of no consequence.

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LATIN AMERICAN PERSPECTIVES, Issue 103, Vol. 25 No. 6, November 1998 47-51
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THE MYTH OF THE MEXICAN RECOVERY

Until late 1997, the Washington Consensus ruled, undeterred by either the gripping crisis that flattened Mexico in 1995-1996 or the gruesome accumulated social costs of the great neoliberal experiment. Indeed, the neoliberals seemed to gain strength from adversity: In Washington, the Mexican crisis was viewed as successfully overcome by a compliant Zedillo administration with the aid of an unprecedented short-term mega-loan coordinated by the IMF. The crisis had arisen from technical mismanagement of the Mexican peso—bad economic policy easily overcome by better adherence to neoclassical economic doctrines. Rising incidences of poverty, falling or stagnating wages, deindustrialization, and rapid increases in income inequality were shrugged off as "transition costs." Looming in the bright future, as foreseen by advocates of the Consensus, was the equivalent of the Chilean "miracle." Chile, having entered on the neoliberal path in 1974, foretold the brilliant future. John Williamson, who coined the term, asserted in August 1994, "The Washington Consensus should become like democracy and human rights, a part of the basic core of ideas that we hold in common and do not need to debate endlessly" (Williamson, 1998: 111).

But the sands of time are quickly running out of the neoclassical hourglass. The presumption of renewed economic growth, this time sustainable, after ten years of "transition costs" lacks plausibility at this juncture. Mexico's presumed recovery in 1996-1997 is but one case in point: Average real wages in 1997 were 30 percent less than in 1994 (ECLAC, 1997: 52). Real growth of GDP of 5.2 percent in 1996 and 7.0 percent in 1997 had been fueled by foreign capital flows and exports and was largely due to a "bounce-back" effect given existing industrial capacity. But the slightest recuperation brought to the foreground the fallacy of Mexico's "export-led recovery"—imports soared once again, with a unsustainable trade deficit equal to 3 percent to 4 percent of GDP anticipated for 1998. Papering over the yawning trade gap were foreign funds, including hot-money funds cascading down from New York because of the record spurts of Asian funds hitting the U.S. financial markets and the mutual-fund boom driven by a mass of unsophisticated buyers who seemed to find nothing remarkable in the tenfold rise in the U.S. stock market from 1982 to 1997. While some of the investments made in Mexico in the 1995-1997 period represented a significant, long-term commitment by transnationals to the Mexican economy, the majority of Mexico's external financing came from loans and purchases of corporate stock. Mexico's economic "fundamentals," particularly the trade deficit, were very poor. Compounding Mexico's dilemma was the Asian crisis, which was increasingly luring transnational corporations to invest in

Asia. Latin America's surging foreign investment boom, hitting a record of US$50 billion in 1997, had most likely peaked, as had the Mexican "recovery" (CEPAL, 1997).

Mexico was locked into a neoliberal cycle of external dependence that hinged upon the subminimum wages of its long-suffering workforce. In the absence of a viable industrial base, the slightest improvement in the macroeconomy brought a surge of imports needed to provide the machinery and equipment and the intermediate materials necessary to create the goods that were to be exported (Dussel Peters, 1997). The "hollowed-out" Mexican economy was merely the best example of the consummate failure of the New Economic Model to sustain manufacturing exports throughout Latin America (Weeks, 1996).

THE MYTH OF CAPITAL FLOWS

According to the Washington Consensus, nations—particularly Latin American nations—that followed the precepts of neoliberal economics could expect to be rewarded by an inflow of foreign funds that would make up for the savings shortfall and energize the economy through renewed investment. The greatest neoliberal fallacy, of many, was the implicit assumption that all capital inflows are equally good and that importing what cannot be made best within a Latin American nation is always and everywhere the epitome of economic rationality.

In fact, the indiscriminate opening of the Latin American economies has brought essentially three types of capital: First, funds have poured into mining, petroleum/petrochemical, agricultural, fishing, and timber operations that normally entail heavy environmental costs and that because of their extremely capital-intensive nature have created but few employment positions. Second, essentially speculative funds have flowed into real estate, shopping centers, office buildings, and financial intermediaries such as banks and stock brokerage companies. These "asset-switching" operations have created fortunes for a select few but have done virtually nothing to ensure an increase in financial support for key sectors of the economy and society, where fresh capital could underwrite indigenous, ongoing technological advancement. Third, Latin America has attracted "hot money" that has been parked in nations offering a higher yield on assets. To maintain these funds, Latin American nations have kept their rates of interest high, thereby starving national firms of financial support and undercutting the efficacy of the public sector, which is thereby forced to relinquish an increased share of its tax revenues to wealthy owners of the national debt, who enjoy exorbitant

interest payments (Benavente et al., 1996; Vera-Vassallo, 1996). In the 1990-1994 period, for example, only 28 percent of all international capital flows were in the form of direct foreign investment, primarily to the natural resource and financial sectors, while the remainder was employed largely to promote speculative activities and Ponzi-style financing (Vera-Vassallo, 1996: 137).

THE CRUMBLING CONSENSUS

Latin America engaged in an indiscriminate opening to foreign capital, thus permitting its pattern of national economic development to become hostage to the volatile and perverse whims of global financial markets. Indiscriminate opening of the capital account and slipshod deregulation and privatization of the financial sector—hallmarks of the Latin American economic "revolution" of the 1980s and 1990s—have come under increasing scrutiny as the Asian economic crisis has swept over the global economic system since mid-1997 (Felix, 1998; Wade and Veneroso, 1998). Two of the main pillars of the Washington Consensus (the World Bank and the IMF) are now beginning to shake as a consequence of the repeated and more profound financial crises that have raged through the global system in the 1990s. The chief economist of the World Bank, George Stiglitz, has gone to some lengths to insist that much of neoliberal economics is nothing but ideology masquerading as defensible, even irreproachable, economic science (Meehan, 1998: 146). Even Michel Camdessus, persistent champion of neoliberal solutions, who as executive director of the IMF remained unflappably serene throughout the Mexican collapse of 1995, now bemoans the global "casino economy" that he so diligently worked to create. Camdessus's dilemma is acute: he simultaneously seeks greater regulation of the financial systems within the "emerging market" nations and greater freedom for international capital to move between nations (Camdessus, 1998). Camdessus now advocates a post-Asian-crisis "new global architecture" to include an even greater regulatory role for the IMF, more bail-out/rescue funds to be used more astutely in future financial meltdowns, *and* more freedom for the transnational corporate beneficiaries of the "empire of hot money."

Meanwhile, in mid-1998, Argentina, Brazil, Chile and Mexico all faced serious and growing deficits on their trade accounts, forcing them to raise interest rates to forestall hot-money capital outflows and inducing an economic slowdown—which will in turn stimulate the outflow of funds on the capital account, turning the economic screws further into the crumbling neoliberal Washington Consensus. Nonetheless, it is much too soon to

anticipate when and how the now inevitable economic policy realignment will be formed. Still, the death-rattle of neoliberalism is the sweetest sound to be heard from Washington in a long time.

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