Latin America in the Post-Washington Consensus Era

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Abstract:

This paper provides an overview of the main consequences of the adoption of the consensus policies in Latin America, and offers some alternatives for the post-Washington Consensus period. It shows that the liberal policies of the Washington consensus resulted from the debt crisis, and it is argued that neither the debt crisis was caused by the previous development strategy nor the Washington consensus solved the external vulnerability – which makes debt crises possible – of Latin American economies. We contend that the view according to which the failure of the consensus was caused by the lack of strict adherence to its rules and that some of the consensus' ideas remain sound is incorrect. The emphasis put by the authors of the post-Washington consensus literature on market imperfections, transaction costs, and institutions is also criticized. The final section concludes arguing that an international environment geared towards promoting stability rather than free movement of goods and services would be more conducive to development in the periphery.

Key words: Globalization, Development, Latin America

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Introduction

In the late 1980s, John Williamson, summarized the views of the mainstream of the profession, and the policy makers in Washington (the US Treasury, the IMF and the World Bank) regarding proper policies for Latin American countries. Williamson's decalogue became famous – or shall we say infamous – as the Washington Consensus. Fifteen years have passed, and hardly anyone – including Williamson himself – would disagree that the Washington Consensus was a failure.

The Consensus was broadly for liberalization, deregulation and privatization, that is, for a reduced role of the State and, in the words of the World Bank (1991), a market friendly approach to development.[2] These reforms would integrate Latin America into the World economy, and allow for high rates of growth. In fact, the World Bank interpreted the Asian experience as being one that was successful for following the market friendly approach development strategy (World Bank, 1993). However, the 1990s were a second lost decade in terms of growth for Latin America, in particular the second half (ECLAC, 2003). Financial crises – Mexico in 1994, Brazil in 1999 and Argentina in 2001 – plagued the region, and social indicators worsened considerably.

This paper provides an overview of the main consequences of the adoption of the consensus policies in Latin America, and offers some alternatives for the post-Washington Consensus period.[3] The following section shows that

[2] The exact ten items in Williamson's laundry list were: fiscal discipline, redirecting government expenses (reduction of subsidies), tax reform, deregulation of domestic financial markets (end of financial repression), competitive exchange rates (unifying the foreign exchange market and eliminating black markets), trade liberalization, openness to Foreign Direct Investment, privatization, deregulation, and enforcement of property rights. Note that although reference to FDI is part of the initial consensus, Williamson did not argue for a completely open capital account. Portfolio flows could still be regulated in his proposal. Also, Williamson never bought into the exchange rate dichotomy (pure float or absolute peg) and defended a more pragmatic exchange rate policy.

[3] The post-Washington Consensus period starts to unravel with the Asian Crisis in the summer of 1997. At that point, even within the World Bank itself dissent starts to be voiced. Joe Stiglitz's (1998) World Institute for Development Economics Research (WIDER) lecture is the most important evidence of dissent within the mainstream of the profession. Other critical (but friendly) analyses – e.g. Burki and Perry (1998), Rodrik (1999), Naim (2000), Birdsall and Torre (2001)

the liberal policies of the Washington consensus resulted from the debt crisis. It is argued that neither the debt crisis was caused by the previous development strategy nor the Washington consensus solved the external vulnerability – which makes debt crises possible – of Latin American economies. The following section describes the main tenets of the so-called post-Washington consensus. We contend that the view according to which the failure of the consensus was caused by the lack of strict adherence to its rules and that some of the consensus' ideas remain sound – as defended by Naim (2002) and Krueger (2003) – is incorrect. The emphasis put by the authors of the post-Washington consensus literature on market imperfections, transaction costs, and institutions is also criticized. The final section concludes arguing that an international environment geared towards promoting stability rather than free movement of goods and services would be more conducive to development in the periphery, including Latin America.

Foreign Savings and Financial Fragility

Crises are usually catalysts for change, and debt crises are no different. The wide spread debt crisis in what used to be called the Third World – in particular in Latin America – in the 1980s corresponds to a period of transition in the cycles of State intervention. In Latin America the reinvigorated role of the State after the depression of the 1930s took the form of an Import Substitution development strategy. The Latin American debt crisis is the landmark that divides the Import Substitution Industrialization (ISI) strategy, devised under the intellectual guidance of the Economic Commission for Latin America and the Caribbean (ECLAC), and the market friendly approach, institutionalized by the International Monetary Fund (IMF) and the World Bank (BIRD).

The debt crisis of the 1980s was the last of a series, and was part of a long-standing pattern of cyclical lending flows to developing countries. Table 1

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and Williamson (2003) to cite a few influential contributions – appeared after Stiglitz's seminal criticism.

shows the evolution of debt indicators for all Latin American countries during the last debt cycle.

The table shows that the total debt to Gross National Product ratio increased from slight more than 20 percent to 39 percent. In terms of the amount of foreign resources that developing countries are able to rise through exports the burden of debt peaked in 1990s at 254.5 percent, and in 2000 was around 172.6 percent. Debt service consumed in 2000 35.7 percent of exports approximately the same amount that in 1980. The share of short term debt was in 2000 close to 16 percent of total debt. We concentrate now on the causes of this last debt cycle and its consequences on development strategies, in particular the Latin American experience.

Table 1 Latin American Debt Indicators (US $ Billions)

	1970	1980	1990	2000
Total Debt (TD)	--	257.3	475.4	809.1
TD/GNP	20.3	34.4	44.6	38.5
TD/Exports	--	201	254.5	172.6
Debt Service/Exports	--	36.2	24.4	35.7
Short Term/TD	14.7	26.7	16.3	15.6

Source: World Bank (2003a)

In the early 1980s several commentators presumed that the effects of the debt crisis would be temporary, and growth would resume since the traditional solutions, adjustment and finance would be effective in surmounting what was seen as a short-lived balance of payments crisis. There is a fundamental difference between crises where a country's underlying debt position is sustainable over the long run and those where debt restructuring is unavoidable. Many thought that the crisis unleashed by the Mexican default of August 1982 was of the former type.

The crisis, however, was more lasting and acute than expected, and, in fact, the 1980s became known in Latin America as the lost decade. By the mid-1980s most analysts were certain that the crisis was going to be long lived (Diaz-Alejandro, 1985) and some argued that a radical change in the development strategy was necessary. The policies that were suggested – and then imposed in the context of international agreements – and that eventually became known as the Washington Consensus (Williamson, 1990), are, therefore, the result of need for a new development strategy.

In many respects, the crisis of the developmental State, and the Debt Crisis represent for Latin America what the so-called fiscal crisis of the State does for the developed world. In that respect, the market friendly approach to development is the other face of the conservative revolution of Reagan and Thatcher in the developed world.

Capital flows to the developing world in the last financing cycle, in particular to Latin America, started before the 1970s. Foreign Direct Investment (FDI) flows in the 1950s, official aid flows in the 1960s – linked to the Alliance for Progress – preceded the private capital flows of the 1970s that took the form of bank loans. Conventional wisdom presupposes that from World War II to the debt crisis – during the ISI period – economic policies were focused on domestic markets, and an anti-export bias was developed (Edwards, 1995). The ISI strategy was characterized by high levels of import tariffs and a relatively high dispersion of the tariff structure protecting domestic production, an overvalued exchange rate discriminating against the exports of primary goods and favoring the imports of intermediate and capital goods. The rate of growth was as a result highly dependent on the expansion of domestic demand. Conventional wisdom presumes that government spending crowded-out private investment, and that protectionism meant that inefficiencies abounded.

In this view, the results were the accumulation of trade and fiscal deficits, and the pilling up of debt. In addition, the investment effort was beyond the fiscal capacity of the State. Foreign savings provided the necessary finance for the development strategy, but when the unsustainable character of foreign flows became clear then capital flows dried up and the debt crisis ensued. In addition, the response to the oil shock is seen as an important cause of the debt crisis.

For most non-oil exporter countries in the Third World the oil shocks meant increasing trade deficits. There are basically two solutions for the problem. If the deficits are deemed temporary one may finance the short lived balance of payments disequilibria. On the other hand, if deficits are seen as long-lived, then adjustment – depreciation and lower rates of growth – is needed to contain the deficit from ballooning.

The other consequence of the oil shocks of the 1970s was the creation of large trade surpluses for the OPEC countries. These dollar surpluses were deposited in the Euro-dollar market, providing a huge amount of liquidity into a deregulated market. Interest rates became negative, and, as a result, the finance option became far more attractive than the adjustment one for developing countries. Further, international financial markets forcefully tried to push loans to developing countries (Darity and Horn, 1988). In this view then countries continued to pursue ISI development strategies, and were able to do it because of favorable conditions in international financial markets. However, negative terms of trade shock and an additional interest rate shock made the strategy unsustainable. The Mexican default of August 12 1982 was, then, the result of a misguided development strategy, and the ultimate solution depended on adopting a new one.

The problem with the conventional wisdom is that the ISI period corresponds to a high growth phase for most developing countries, one in which they caught up with the developed world despite the fast growth in the latter. Table 2 shows that during the ISI period from the 1950s to the 1970s Latin America grew as fast as Asia and the US.[4] It is only in the 1980s that the Latin American growth performance will collapse. In fact, Dani Rodrik (1999a, p. 71) argues that “contrary to received wisdom, ISI-driven growth did not produce tremendous inefficiencies on an economywide scale. In fact, the productivity

[4] The rate of growth of the G-7 is higher since the European recovery and the Japanese miracle took place in that period.

performance of many Latin American and Middle Eastern countries was, in comparative perspective, exemplary."[5] The liberal period of the 1990s looks rather poor when compared to the performance of the ISI period.

Table 2 GDP Per Capita Growth Rates

	1950-70[a]	1971-80	1981-90	1991-00
East Asia	2.50	4.6	5.6	6.4
Latin America	2.52	3.3	-0.9	1.7
G-7	4.3	2.7	2.5	1.7
US	2.45	2.2	2.2	2.2

Sources: Maddison (2001), World Bank (2003b)
[a] Figures for the 1950-73 period.

Furthermore, several countries had already abandoned ISI policies in the 1970s. The Southern Cone countries had moved into neo-liberal policies by the mid-1970s, Brazil and many South East Asian countries were experimenting, with varying degrees of success, with export oriented strategies. The ISI period, which basically corresponds to the 50s and 60s, led to only moderate accumulation of foreign debt, and in many cases to falling debt to GDP or debt to exports ratios, which denotes sustainable debt dynamics. Hence, ISI policies, and the fiscal consequences of those policies seem to be of secondary importance in explaining the debt crisis.

The main reasons for the debt crisis and the ulterior reasons for the change in development strategy were the interest rate and terms of trade shocks of the late 1970s and early 1980s. Latin America, in contrast to Asia, was particularly vulnerable to interest rate shocks since their capital accounts were relatively more open, and the local elites were able to prevent losses by flying to secure American capital markets (capital flight). Hence, it is paradoxical that a crisis caused to a great extent by the vulnerability and exposure to international

[5] It is clear that there are unsuccessful ISI experiences. However, as noted by Wade (2003, p. 634) "this no more discredits import replacement as a principle than the failure of democracy in many developing countries discredits the principle of democracy."

financial markets eventually led to a development strategy that emphasized liberalization and openness as solutions.

The Washington consensus package should have reduced the external vulnerability of the Latin American economies. For example, one should expect that either because exports increased, as a result of increased efficiency and competitiveness, or because financial markets rewarded the followers of the consensus with lower interest rates[6] the debt service to export burden of Latin America should have fallen in the 1990s. As Table 1 shows that is not the case. Most observers now agree with Bresser Pereira (2004), according to whom the strategy of growth promoted by the consensus, which depended on foreign savings, increased the external financial fragility of Latin America.[7] Financial fragility is evident in the recurring financial crises in the region, the Argentinean being the most severe and recent of all.

Beyond the Consensus

There two types of explanations for the failure of the consensus. A typical argument of those that favor the consensus is that the consensus was not actually pursued in most Latin American countries, or at least not fully and consistently (Lora and Panizza, 2002). This is particularly the case when fiscal discipline and exchange rate policy are under consideration. A second type of explanation is that, while fundamentally sound, the consensus was incomplete, and an additional set of measures was needed.

The first point to discuss then is the question of fiscal discipline. Fiscal discipline in general is associated with nominal fiscal results. In other words, discipline hinges on whether the government (in all its levels) has a surplus (or not) over its expenses. The fiscal deficit can be subdived into its financial and non-financial components. The primary fiscal balance excludes the interest

[6] Note that one of the reasons for financial liberalization according to McKinnon and Shaw was that interest rates would fall (Studart, 1995).
[7] It should be noted that even when foreign flows took the form of FDI flows its effects on domestic capital accumulation were not positive. See Vernengo (2003b).

payments incurred by the servicing of the outstanding debt, and hence portray the non-financial part of the fiscal accounts. If we look at the primary figures the picture of fiscal performance for Latin America is not inconsistent with the consensus.

If we take the three biggest Latin American countries – Argentina, Brazil and Mexico, which correspond to more than 70 percent of the region's output – it is clear that since the debt crisis of 1982 there has been a stanch fiscal effort. Mexico has had primary surpluses since 1983. Argentina and Brazil had maintained on average primary surpluses in the 1980s and 1990s even tough in some years there were deficits. In all countries the nominal deficits have been relatively large.[8] The difference between the primary surpluses and the nominal deficits is made of interest payments. One may ask then, what is the effect of the fiscal policy mix (primary surplus and nominal deficit) that the main Latin American countries maintained since the debt crisis and continue to pursue.

The conventional view of fiscal deficits is that in the short run they stimulate the economy in Keynesian fashion, but in the long term, given that national savings equal domestic investment and net foreign investment, then a fall in national savings (public deficits) must lead to a fall in capital formation or net foreign investment. In both cases the level of growth must fall. Put simply, deficits are good in the short run, but not in the long run. Sometimes the negative long-term effect on growth is presented as the result of rising interest rates leading to lower capital accumulation. The higher rates of interest result from the decrease in national savings. In other words, public spending crowds out private spending. Leaving aside the logical problems with the crowding out argument – tackled long ago when Keynes debated the so-called Treasury view – there is very little evidence that deficits affect the rate of interest (Gale and Orszag, 2003, p. 475).[9] Further, the Latin American experience suggests that

[8] For the Argentinean fiscal efforts see Damill *et alli* (2003), and for the Brazilian fiscal experience see Câmara and Vernengo (2002). In both cases the idea that fiscal crisis were behind the balance of payments problems is refuted.

[9] Gale and Orszag (2003) argue that the evidence is mixed at best, but that most macroeconometric models in the US imply a small but significant positive correlation between interest rates and public deficits. Causality is never questioned though.

the causality between interest rate and fiscal deficit is reversed. That is, a higher interest rate will lead to higher interest payments on debt, and higher nominal deficits. The reasons for that are twofold. First, central banks in the region tend to maintain high interest rates (short term interest) to avoid capital flight. Second, part of the public debt is indexed to the short term interest rate. As a result, monetary policy translates into high debt servicing.

Whatever the effects of public deficits on growth, then, those results cannot be brought about by higher rates of interest, in the Latin American context. Income distribution is, however, affected by this fiscal policy mix. A primary surplus together with a nominal deficit implies that the government is paying the difference to debt holders. Usually debt holders are wealthy individuals, corporations, and banks. In other words, the combination of primary surplus *cum* nominal deficit represents a transfer of resources from society as a whole to wealthy debt holders. The redistributive process has strong social consequences since in most cases primary surpluses imply that social spending has to be squeezed (Grunberg, 1998).

Therefore, the effects of fiscal deficits on the level of activity are mediated by income distribution rather than the rate of interest. In wage-led economies redistribution towards debt holders, with lower propensities to consume, should lead to output stagnation. In other words, in wage-led economies, financial liberalization that promotes integration to international financial markets, coped with large primary fiscal surpluses, promotes stagnating rates of output growth. The stagnationist scenario would be reversed in a profit-led economy. However, anecdotal evidence suggests that Latin American countries tend to be wage-led, resulting in a more likely stagnationist scenario.[10] In that sense, the long run effects of the fiscal deficits are negative, but the reasons have nothing to do with public spending crowding out private spending.

The question to be asked then is why a country would promote a severe fiscal adjustment, in terms of the primary target, if the final effects turn out to be

[10] For structuralist models with wage and profit-led regimes, and discussion of its applications to developed and underdeveloped economies see Taylor (2004).

low levels of output growth and worsening income distribution. The primary deficit is a very narrow concept, and it was well known since the times of Keynes that deficits are not good measures of the fiscal stance. In other words, primary targets do not allow controlling aggregate demand. The reason for using the primary deficit as target for policy, with the implicit objective of maintaining a stable debt to GDP ratio, is related to the effects of globalization. In an open economy the rate of interest is set to keep the foreign exchange under control, and to avoid capital flight. As a result, the interest payments on debt cannot be controlled, in particular, because the debt is indexed to the base rate of interest determined by the monetary authority. Accordingly, the only variable left for the government to try to control the debt to GDP ratio is the primary surplus, and that is why the IMF imposes primary surpluses on developing countries.[11]

In this respect, one should note that primary surpluses have little, if anything, to do with generating credibility. Foreign investors, concerned with foreign debt, should look at the export performance of the country, the only secure source of foreign reserves, rather than primary fiscal balances. Unless one assumes that foreign investors are irrational, the credibility argument seems of limited relevance.

This brings us to the second argument put forward by defenders of the consensus, namely: that most Latin American countries did not follow the competitive exchange rate rule of Williamson's decalogue. This is probably the strongest point made by those that believe that the consensus was fundamentally sound, and that the poor performance of Latin America is accounted by the lack of compliance with the Williamson's recommendations. Clearly most countries did allow for an appreciation of their currencies during the liberalization processes, the most extreme case being the Argentinean currency board experience. The Mexican Tequila crisis was important in that led many mainstream authors to admit that overvalued exchange rates had a negative effect on competitiveness. For example, Dornbusch (1997, p. 384) admits that

[11] For a critique of IMF policies in the Brazilian context see Carvalho (2004). For a broader indictment of the functioning of the international financial system see D'Arista (2004).

“trade liberalization calls for real depreciation and a fall of the wage in dollars,” even though the opposite tends to happen.

Two important qualifications are necessary here. Williamson (1990) was in fact rather heterodox in suggesting a competitive exchange rate in his consensus, since the profession was moving at that point (less clear now) to a bipolar consensus (Fischer, 2001). Hence, although never explicitly defended by the IMF, currency boards, dollarization and other hard pegs, used in the anti-inflationary policies were more than simply tolerated, and were praised by the Washington officials. Dornbusch himself, for example, although critical of the appreciation of the currency in Brazil and Mexico, was a cheerleader of the Argentinean convertibility plan. Second, and more importantly, a more competitive exchange rate, although necessary is not a panacea. A more depreciated currency allows for higher export revenues, but also increases the costs of imports, and is generally associated with higher domestic inflation (Câmara and Vernengo, 2004). Also, historically, it is during the Bretton Woods period, in which exchange rates were relatively rigid, that we find the best performance in Latin America. All these suggest to us, that a more pragmatic exchange rate policy is needed in Latin America – to balance competitiveness with inflation control – but that the failure of the consensus cannot be simply blamed on the lack of such a policy.

The final point we want to discuss is the idea that Williamson’s decalogue was incomplete, and particularly that institutions were not included in the original consensus. Stiglitz (1998) is probably the seminal and most important contribution to this extended post-Washington consensus.[12] According to him the consensus policies are important but not sufficient, and “sound financial

[12] We should note that although it is clear that Stiglitz goes beyond than those that think that the consensus was sound and that it failed because it was poorly implemented by corrupt elites in developing countries – what maybe termed the cronyism critique – as noted by Chang (2002b), it is not correct to argue that his analysis based on his contributions to information economics are a departure from orthodoxy and close to the development tradition of Myrdal, Prebisch and Hirschman. In that respect, we agree with Fine (2002) according to which the post-Washington consensus paradigm represents a form of economic imperialism that will foreclose the research agenda at the expense of broader approaches to the political economy of capitalism, that analyze the varieties of capitalist experiences (e.g. Dore, 2000).

regulation, competition policy, and policies to facilitate the transfer of technology and to encourage transparency," are also needed. Burki and Perry (1998), at the World Bank, and Rodrik (1999b) argue that institutions must be taken into account. Rodrik (1999b) suggests that five types of institutions – defined as behavioral rules that govern the interaction between economic agents – are relevant to explain successful development experiences, namely: property rights, regulatory institutions, institutions for macroeconomic stabilization, institutions for social insurance, and institutions for conflict management.

The problem with the argument of the post-Washington consensus is not that institutions are irrelevant. Even if introduced in the narrow sense of transaction costs a la North, bringing institutions to the fore is an advance within the mainstream. The problem is that the set of institutions that they would like to promote would do more harm than good. Take property rights, for example, an institutional arrangement that was in fact part of Williamson's consensus. Developed countries have been trying to enforce more comprehensive property rights since the Uruguay round of the extinct General Agreement on Trade and Tariffs (GATT) resuscitated as the World Trade Organization (WTO). The effect of enhancing property rights is to limit and make more costly the transfer of technology to developed countries, which tend to be net consumers of patents from the developed world.

Regulatory institutions are meant to reduce anti-competitive behavior, according to Rodrik (1999b). Within the WTO regulatory institutions fall into the so-called Singapore issues, and would imply that developing countries would be unable to use performance requirements related to local content, export performance and government procurement rules. This reduces the ability of developing countries to promote industrial policy, and gives a competitive advantage to developed countries' corporations.[13]

[13] A critique of property rights and regulatory institutions as mechanism for development, although in a different context, is provided by Wade (2003). The problem with these strategies is that they prevent developing countries from using the policies that developed countries did use to promote capital accumulation. In other words, to use List's expression revived by Chang (2002a), developed countries are kicking away the ladder. Note that, in this view, competitiveness is not a dangerous obsession, as Krugman (1994) would have it.

Those institutions that Rodrik (1999b) refers to as Macroeconomic Stabilization and Social Insurance institutions – i.e. independent central bank, robust fiscal institutions, and transfer programs – within the context of an open economy integrated with the world economy would not necessarily promote development.[14] In fact, the opposite is more probable. As we noted above external liberalization has perverse fiscal effects, leading to redistribution to the wealthy, while maintaining monetary policy prisoner of international financial markets, and promoting a reduction of social spending.[15]

It seems that the Washington consensus cum institutions – the Washington version of globalization with a human face – presumes that globalization, that is, higher mobility of goods, services and capital,[16] is the only alternative, and that developing countries' States are weak or incapable of countering it. The ill designed institutions are intended to enhance the mobility of goods, services and capital. We believe that, in the spirit of Keynes' plans before Bretton Woods, developing countries would benefit from advancing an international environment in which stability rather than mobility is central, because stability allows promoting domestic welfare (full employment, price stability, and equalitarian income distribution). Capital controls which were heretical in the 1930s, in Keynes' words, and are still within the post-Washington consensus agenda, should be widespread. Also, rejecting the institutions that would preclude developing countries from pursuing industrial policies (property rights, and regulation institutions) is essential.

In that respect, the current record in Latin America is ambiguous, but not completely dismal. The election of Luis Inácio Lula da Silva in Brazil, and that of Néstor Kirschner in Argentina and some of their policies might be constructed as

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[14] Note that the post-Washington consensus is as keen on globalization, and hence liberalization of the trade and capital account of the balance of payments as the original consensus. In fact, capital account liberalization is an addendum to the original consensus. One should note that some authors, such as Bhagwati, Krugman and Stiglitz himself have been more reticent about capital account liberalization.

[15] The last set of institutions, the conflict management ones, that include the rule of law, a high quality judiciary, free elections, representative political institutions, and independent trade unions, are sometimes the result of development, not its cause, and sometimes simply not correlated with capital accumulation.

[16] Labor mobility, i.e. immigration, is often neglected.

a reaction to the so-called post-Washington consensus.[17] In particular, the Brazilian leadership of the Group of 20, which revives the non-aligned movement of the 1950s, and the positions that led to the creation of the United Nations Conference on Trade and Development (UNCTAD), and its resistance to the Singapore issues is worth noticing. The main vehicle for the post-Washington consensus in the region will be indubitably the American promoted Free Trade Area of the Americas (FTAA). Unconditional acceptance of the American proposal would lead to another post-adjustment blues, and Latin Americans will profit from standing clear of the globalization obsession that spread like a virus in the 1990s.[18] International stability and domestic prosperity, not globalization, should be the goals of our policies.

Concluding Remarks

The liberal pro-globalization policies of the Washington consensus in Latin America resulted from the debt crisis. We have argued that neither the debt crisis was caused by the previous development strategy nor the Washington consensus solved the external vulnerability of Latin American economies. Two explanations for the failure of the consensus have been put forward. We contend that the view according to which the failure of the consensus was caused by the lack of strict adherence to its rules and that some of the consensus ideas remain sound is incorrect. The emphasis put by the authors of the post-Washington consensus literature on institutions does not address the main problem of the consensus, namely that globalization is a dangerous obsession for the Latin American elites, or of any peripheral region for that matter. The globalization of the late nineteen century ended in the roaring 20s and the depression, and the current wave of globalization, and the roaring 90s ended up in crises that are

[17] For a critical view of Lula's administration so far see Vernengo (2003a). In particular, in macroeconomic issues – fiscal and monetary policy – Lula, in contrast to Kirschner, has accepted the entire IMF package.

[18] Naim (1993, p. 133) in an incredible prescient paper argued that "Latin America, which has spent the last 10 years [since the debt crisis] demolishing the State, will spend the next 10 rebuilding it." The task was not done in the 1990s, and is still ahead.

sometimes worse than the depression (e.g. in Argentina). An international environment geared towards promoting stability rather than free movement of goods, services and capital would be more conducive to development in the periphery, including Latin America.

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