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RECLAIMING AN ECONOMIC FUTURE THROUGH DEMOCRACY

A new direction for economic policy in the Americas

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The Fourth Summit of the Americas will be convened on November 4, 2005 in Mar del Plata, Argentina. This summit brings together, under the auspices of the Organization of American States (OAS), presidents from governments throughout North, Central, South America, and the Caribbean to address common challenges facing them. The summit was originally scheduled to finalize the proposed Free Trade Area of the Americas (FTAA). When that plan faltered due to lack of support throughout much of South America, the theme was changed to “Creating Jobs to Fight Poverty and Strengthen Democratic Governance.” Fulfilling the promise of this theme will require the economies of the Americas to undertake a drastic change of direction.

At this summit meeting, policy makers will be handed a document titled “Labor’s Platform for the Americas” (LPA). The LPA lays out an alternative set of principles and guideposts that should shape future economic policy making in the Americas. It calls for a sharp break with the economic orthodoxy that has failed to provide economic success over the past two decades, during which the economies of Latin America were largely governed by the pillars of the so-called “Washington Consensus.”

The Washington Consensus is the label given to the policy prescriptions championed by the international financial and trade institutions. (The International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO) are sometimes collectively referred to as the Bretton Woods institutions, or BWIs.) These prescriptions were embraced by local elites throughout the Americas over the past two decades, often (but not always) under pressure from the BWIs. The exact parameters of the Washington Consensus exist in the eye of the beholder, but there are common broad elements that all agree form its central core: fiscal discipline, tax reform,

interest rate liberalization, privatization (including foreign takeovers of domestic companies and resources), deregulation of product, labor, and financial markets, and trade liberalization.

These policies were sold as a way to increase economic growth and productivity in their economies and to avoid the boom and bust cycles that characterized the 1970s. They have, inarguably, failed to deliver. The LPA charts a better course.

The results of the Washington Consensus

When Latin American governments have adopted Washington Consensus policies, growth has slowed, inequality has increased, and other measures of economic and social insecurity have worsened. **Figure A** shows the growth rates of per capita GDP for various nations in the Western Hemisphere over two time-periods: 1951-75 and 1985-2000. These time periods correspond roughly to the pre- and post-Washington Consensus policy regimes. Beginning in the late 1970s and early 1980s, the debt crisis led not only to economic downturns in many Latin American nations, but also to the adoption of Washington Consensus policies. These policies were adopted both as a precondition for financial assistance from the BWIs and as a consequence of the political ascension of market-friendly local elites.

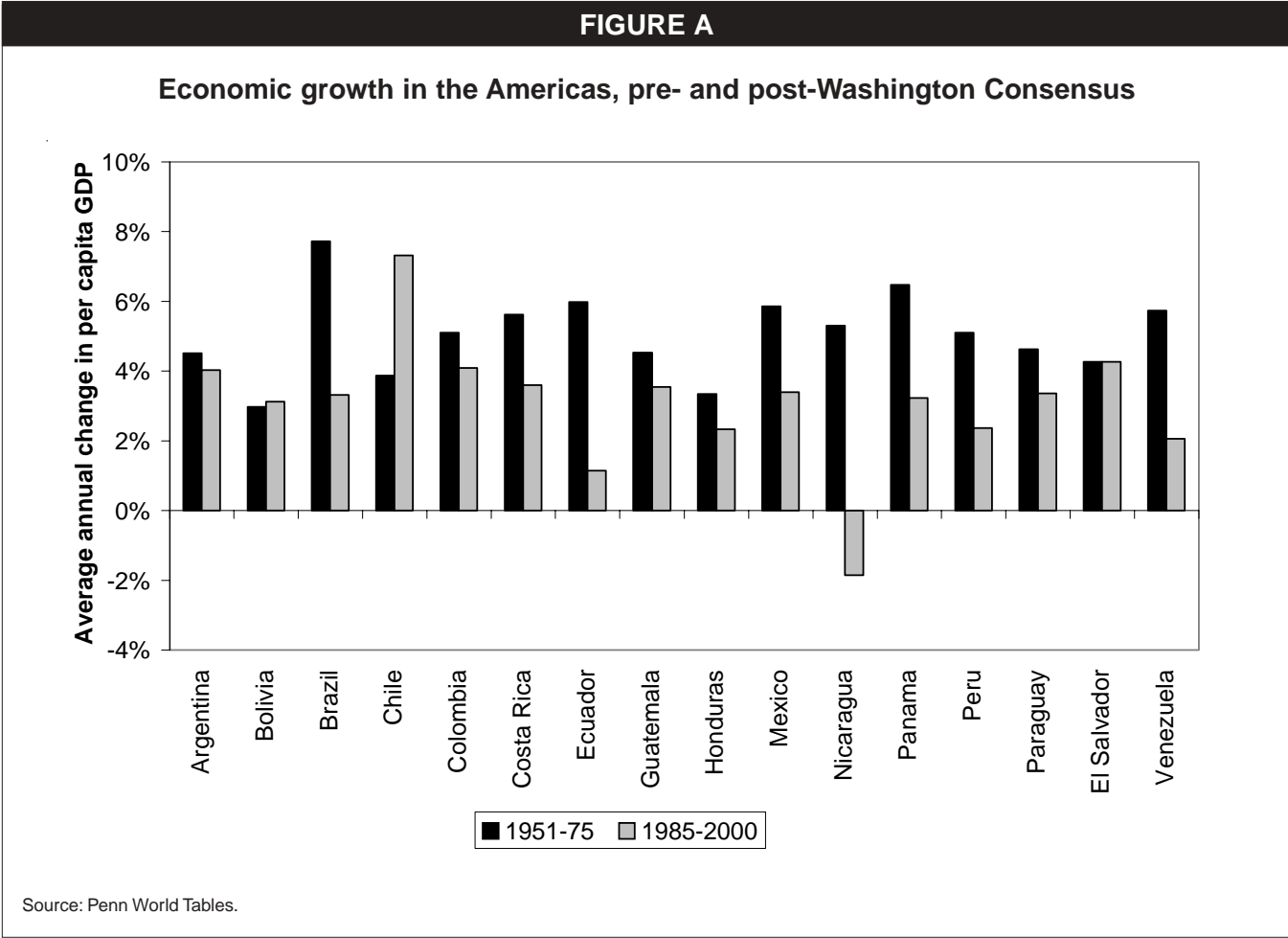
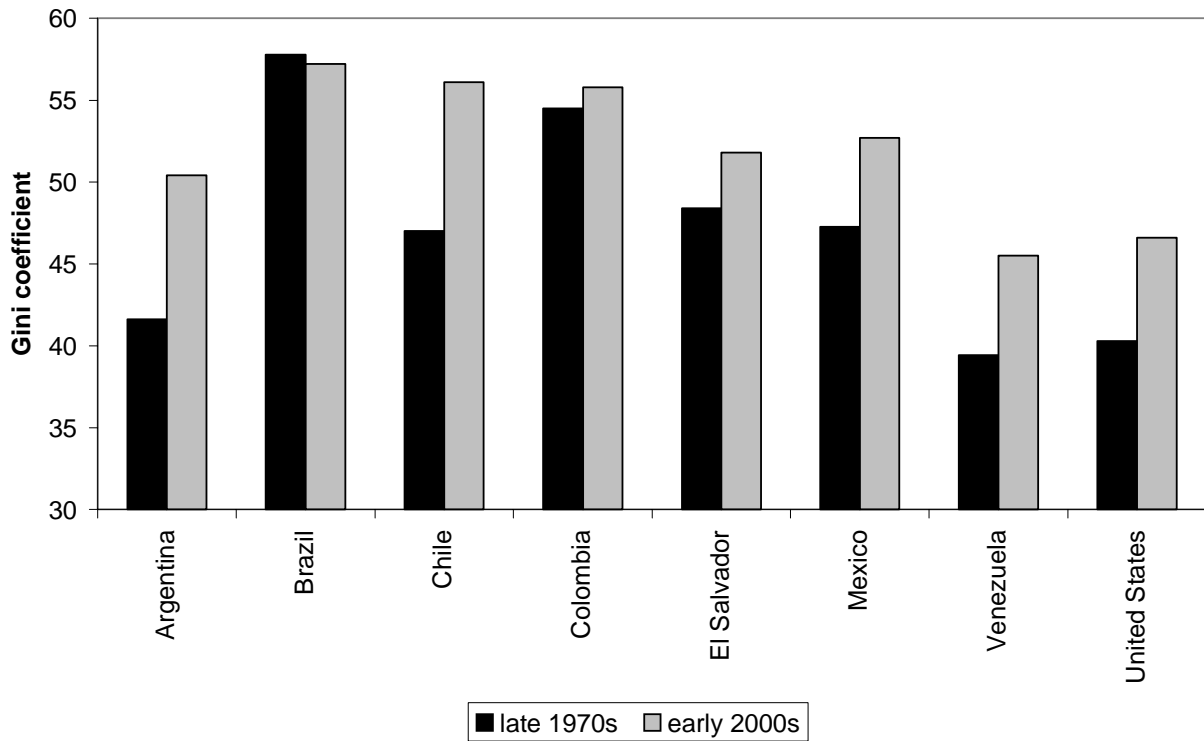


FIGURE B

Gini index of inequality, selected countries



Source: Early Gini coefficients from the Deninger and Squire database at the World Bank. Late Gini coefficients from the World Bank (2003) report "Inequality in Latin America and the Caribbean: Breaking With History?"

The 1975-85 period is left out of Figure A for two reasons: first, the exact breakpoint for each country in largely accepting Washington Consensus policies is unclear, and this omission avoids the sharply negative growth rates of the debt crisis period, giving each policy regime its fairest representation. What the graph shows is that, even when omitting the debt crisis period, growth is slower in the post-Washington Consensus period than what prevailed previously.

What little growth has occurred in Latin America during the past two decades has been notably maldistributed as well, with inequality rising across the region. **Figure B** plots a well-accepted index of household income inequality, the Gini coefficient, for a number of countries in Latin America for the late 1970s and early 2000s. It also provides the U.S. coefficient as a comparison. Inequality in Latin American countries tends to be higher than in the United States—itsself the most unequal industrialized country—and rose over the last decade, with the single exception of Brazil, where inequality declined very slightly.¹

Labor's Platform for the Americas

One of the most noteworthy aspects about the LPA is its diverse array of signatories: every national labor confederation in the Americas, from the Canadian Central Labor Council (CLC) to the AFL-CIO of the United States to the Venezuelan, Argentinean, Brazilian, and Peruvian union federations has joined to call for a new approach to global integration.² And the document is the result of a widespread participatory and democratic process with scores of union federations contributing ideas, making compromises, and promoting the LPA to their membership.

This diversity may well come as a surprise to U.S. observers. Here, the merits of trade agreements and other moves toward global integration are argued by policy makers and in the media almost exclusively on the basis of what they mean for U.S. workers.³ Opposition to the North American and the Central American Free Trade Agreements (NAFTA and CAFTA, respectively) focused largely on the potential damage to U.S. workers, too often allowing the proponents of these agreements to assert unchecked that they would benefit workers in U.S. trading partners.

A pointed distillation of this conventional wisdom comes from Gregg Easterbrook: “Half the point of NAFTA was to ship American jobs to Mexico, which is bad for American labor, but great for Mexicans...Indeed, NAFTA has always struck me as a huge gift from the people of the United States to the people of Mexico, if a gift that not all Americans wished to give.”⁴

This conventional view takes it as given that, while global integration harms American workers, it's an unambiguous boon for workers in the developing world. The LPA should be seen as a decisive rebuttal of this facile view. Globalization as currently practiced—with the stripping of policy autonomy from developing country governments by the international financial and trade institutions (the IMF, World Bank, and WTO) and onerous conditions attached to accessing the markets of rich nations—has been even worse for development in Latin America than for the economic security of workers in the United States. Labor leaders throughout the hemisphere, based on their experience with the Washington Consensus policies, have unanimously rejected this conventional view.

If the Washington Consensus has failed, now what?

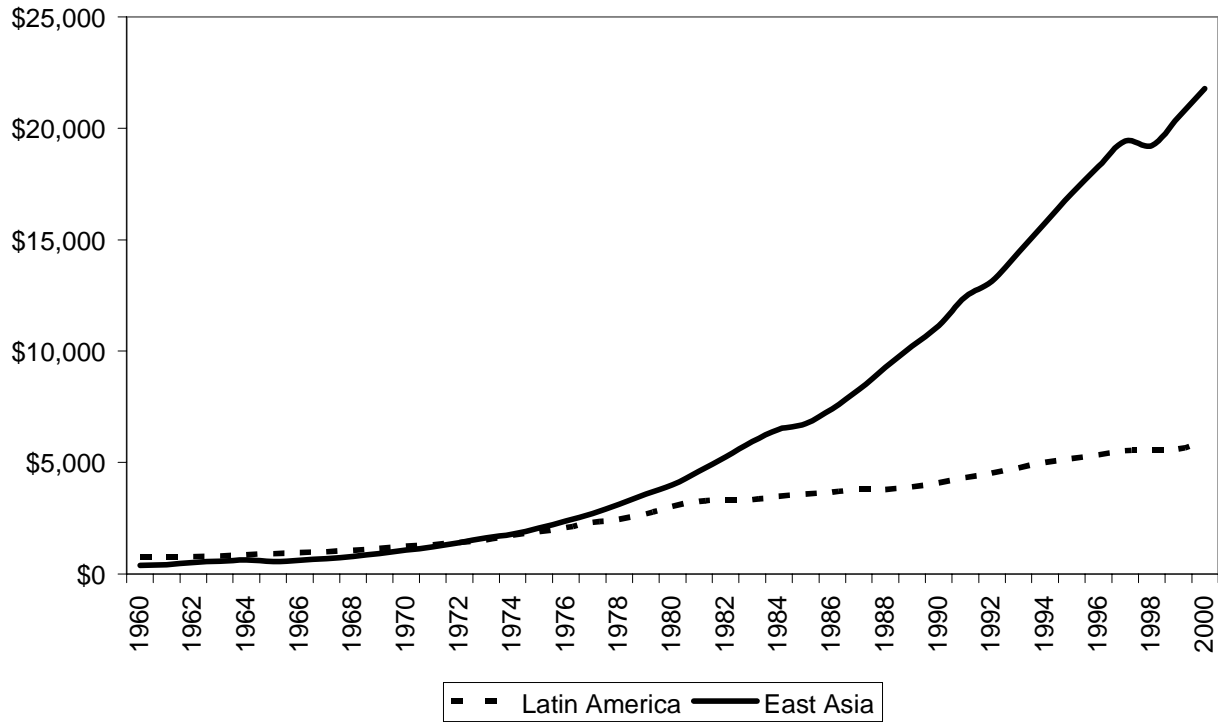
The LPA lays out a set of guiding principles that should form the foundation of economic development strategies. The bedrock principle of the Platform is the right of nations to form economic policies through democratic processes and engage in policy autonomy and experimentation. This means that the current players setting the rules of the game regarding globalization (the BWIs and regional development banks) should not have veto power over the will of democratic polities.

Some social and economic policies that nations wish to embrace could run afoul of the current rules of these bodies. A clear example of this is Brazil's use of generic medicines, including those used to treat citizens (often without charge) infected with HIV/AIDS. This use of generics led to the United States filing a case against Brazil in the WTO on behalf of U.S. pharmaceutical companies that wanted U.S. patent protections to be upheld internationally. While this case was eventually dropped by U.S. trade officials, it highlights how developing nations' economic and social policy choices can be constrained by the governing institutions of globalization.

Less esoteric examples of how current trade rules can impede promising development paths can be seen by contrasting the Washington Consensus model prescribed for Latin America with the much more successful strategies pursued by the East Asian “late industrializers” (Korea and Taiwan, for example). These Asian late industrializers

FIGURE C

Average GDP per capita for Latin America and East Asian late industrializers



Source: Penn World Tables.

used a variety of trade and industrial policy tools, including protection of domestic industries and (implicit and explicit) subsidies to exports as spurs to growth. While the success of these nations in spurring economic growth over the past three decades is inarguable (**Figure C**), these same tools would today be ruled out of bounds by the current governing institutions of the global economy.⁵ They need to be put back on the menu of policy options.

Beyond this bedrock principle of policy autonomy, **Table 1** summarizes and contrasts some planks of the LPA with the recommendations of the Washington Consensus. The LPA provides a positive statement around which those dissatisfied with the impact of globalization on working families across the Americas can coalesce. It ought to be taken seriously by the hemisphere's top policy makers when they meet in Mar del Plata and when they go home.

TABLE 1: Labor Platform of the Americas compared to Washington Consensus

	The LPA	Washington Consensus
Role of government	Government is a necessary co-participant with private sector in generating growth with equity. It must provide legitimate property right protection, regulation, and ensure politically sustainable distribution of wealth and income.	Government's primary role is to safeguard property rights. When its role expands beyond this, it creates inefficiencies.
Macroeconomic policy		
(1) Fiscal	(1) Governments need the freedom to engage in counter-cyclical fiscal policy (recession fighting).	(1) Governments should target balanced budgets, mostly through spending restraint.
(2) Monetary	(2) Monetary policy should aim for the dual targets of full-employment and stable inflation.	(2) Sound money (low inflation) is the key to growth, generally pursued through interest-rate policy.
(3) International	(3) The full menu of capital-management techniques should be used to maximize benefits and minimize risks of international financial flows.	(3) International financial markets should be liberalized, allowing unfettered inflows and outflows of capital.
Microeconomic policy	Targeted trade and industrial policy, including subsidies and tariffs, should be put back into policy makers tool kits.	Nations should remove market inefficiencies (subsidies, tax wedges, tariffs).
Unionization	Unions provide a voice for workers and offer the possibility of productivity-enhancing organizations of production.	While rarely explicitly mentioning unions, the Washington Consensus calls repeatedly for "labor market flexibility," which often means ease of wage cutting and hiring/firing. This has usually been interpreted as a brief against union power.

Endnotes

1. Data for the late 1970s come from the Deninger and Squire database compiled at the World Bank. It measures household income Gini coefficients. I tried to choose the available year closest to, but less than, 1980 in each case. For Argentina, Brazil, Chile, and Venezuela, the early year is 1979. For Colombia it is 1978. For El Salvador and Mexico it is 1977. Data from the early 2000s come from the Statistical Appendix of the World Bank publication "Inequality in Latin America and the Caribbean: Breaking With History?" (2003). These are also household income Gini coefficients.
2. The Change to Win Coalition was formed too recently to vote on the LPA.
3. There is, of course, a long tradition in research and advocacy communities of analyzing what trade agreements will do to developing countries, but, this does not often make its way into the heart of the debates.
4. Easterbrook, Gregg. 2002. "The Greatest Good for the Greatest Number." *Washington Monthly*. November.
5. Figure C includes the following countries for each regional grouping: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, El Salvador, and Venezuela in the Latin America grouping, and, South Korea, Singapore, and Taiwan in the East Asian grouping.