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NOT SO GOOD, NOT SO BAD

IMF and World Bank market reform beyond the Washington Consensus in the Latin American cases of Ecuador and Argentina

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Title:
Not so good, not so bad: IMF and World Bank market reform beyond the Washington Consensus in the Latin American cases of Ecuador and Argentina.

Question:
How have the International Monetary Fund and World Bank affected the implementation of the Washington Consensus as United States Foreign Policy in the Latin American cases of Ecuador and Argentina?

INTRODUCTION AND BACKGROUND

Throughout Latin America, there are diverse opinions and experiences regarding what the Washington Consensus in the region has meant. Scholars, political leaders, and the media have described different conditions from which this consensus was developed, consisting of a package of neoliberal reforms in most countries. The formulas included policies that advocated macroeconomic stabilisation, economic liberalisation concerning both trade and investment, the reduction of the state and the expansion of market forces within the domestic economy. It is understandable that there is no consensus, since there are different contexts in different countries given the economic, political, and social conditions that existed at that time. In the 1980s, the most developed nations in the region were those of the Southern Cone (Argentina, Brazil, and Chile), while the countries of the former Andean colonies (Colombia, Ecuador, Peru, and Bolivia) still had only limited industrial development. Due to its vast oil reserves, Venezuela, also part of the former Andean colonies, enjoyed a tremendous economic boom during the 1960s and 1980s, although in years later it was not able to change its economy. In general terms, the developed nations of South America that adopted the Washington Consensus acquired more strengths than weaknesses during the process. However, for the most developed countries the reality was different, and the application of these reforms contained multiple disadvantages in matters of social and economic policy.

This paper will compare the benefits and shortcomings that resulted from the Washington Consensus, drawing on the specific cases of Argentina and Ecuador. These two countries will be analysed as both would be found in the antipodes before and after the implementation of the reform packages given by the World Bank, the International Monetary Fund (IMF) and the United States Department of Treasury. Ecuador was a small producer of raw materials such as bananas, prawns and oil, whereas Argentina was a producer of light machinery and inclining towards local automotive production. The outcome after the Washington Consensus for both countries was very different. Following the economic crisis of the late 1990s, Ecuador adopted the US dollar as its national currency, thus losing its fiscal and monetary independence but eliminating hyperinflation. Argentina, however, chose to maintain its national currency and suppress state devices, eliminating subsidies and acquiring a massive debt.

This research will be based on the analyses by Randall Stone on the institutional strength of the countries, the intervention of international organisations, and the influence of the United States on the IMF and other institutions. It will analyse the situation of both nations from the Prospect Theory perspective in Kurt Weyland's view of the neoliberal market reform, the relative gains, and the relative losses that occurred before, during and after the implementation of the Washington Consensus. It will seek to present an analysis of the different circumstances in South American countries, and oppose those who suggest that the Washington Consensus was either uniformly good or bad.

Analysing the Washington Consensus as a market reform using prospect theory

Existing investigations of the Washington Consensus are based on very general lines and do not present analysis of each case. The comparative analysis of Ecuador and Argentina in this paper will reveal a common thread between the experiences in South America with the application of neoliberal economic reforms: weak institutions, absence of a liberal democracy and entrenched leadership.

As Panizza described (2009, 108), the articulation of liberal democracy and the free market reforms of the late 1980s and early 1990s resulted in the strengthening of the structural power of capital and the political power of business, and a parallel disorganisation of the popular sectors. The reforms were not conducive to the promotion of the right balance of class struggle essential for the flourishing of democracy. In Latin America, the neoclassical critique of state interventionism materialised in the political critique of the populist state, or what Weyland (1998; 647) called a strategy to win elections. The new political frontier no longer lay between the democratic present and the authoritarian past, but between the new economic agenda and the old model of economic development.

Panizza (2009; 109) Observed that, during the 1980s, economists and sociologists in international organisations began to analyse the effect of the implementation of economic reforms in the region. The World Bank and the IMF had reformed the economies of several countries in the region for the implementation of these reform packages, and indicators such as economic growth, poverty, and inequality were produced to support or undermine arguments about the benefits of economic liberalisation. However, the debate was not about figures, as figures do not speak for themselves and make sense only when combined with broader arguments about origins, causality and consequences. Technical arguments become the building blocks for broader political narratives that sought to make sense of the past and offer a roadmap to the future.

According to Panizza (2009), there is a specific correlation between the viability of liberal democracy in Latin America and the weakness of state institutions. Political leaders who adopted neoliberal market reforms in Latin America and the need to increase dependence on the World Bank and the IMF in the region, found a response to a generated demand. Political advisors such as Riorda (2012) have pointed out that many political leaders at that time in Latin America came to power without having an economic development plan. The proposals of these international organisations added to the need to counteract the economic needs of the region and resulted in the acceptance of the package of reforms proposed by the Washington Consensus.

In contrast, Weyland (1998; 646) demonstrated that there was an acceptance of the draconian package of neoliberal reforms by the electorate. In the cases that Weyland analysed, both Argentina (Carlos Menem) and Peru (Alberto Fujimori) increased acceptance among voters barely a year after being elected and this reached such a level that it guaranteed re-election of these leaders. Therefore, there was a degree of complicity before the acceptance of the reforms of the Washington Consensus among voters before the need for a response to hyperinflation, deplorable social conditions and low levels of consumption caused by unemployment and limited foreign investment.

The influence of the United States on the World Bank and IMF

Stone (2009) found that international organisations were heavily influenced by the US, partly due to its financial contributions; both the World Bank and the IMF obtain their largest sources of income from the US, hence their dependency and accountability, although, placing the responsibility for the causes of the Washington Consensus on the political leaders would also represent a considerable bias in our analysis. The citizens of the affected nations also embraced the neoliberal reforms, suggesting that there was a degree of responsibility in the entire Latin American social structure, from society to the state.

Weyland (1998) demonstrated that they did not make decisions based on absolute levels of utility as conventional rational choice approaches assume, but by reference to relative gains and losses, using the status quo as a benchmark. His application of Prospect Theory predicts that countries should emerge from the initial crisis and consolidate the new neoliberal development model. The conditions in which the implementation of neoliberal policies were developed during the application of the Washington Consensus were very poor, and society accepted them because: 1) the state was already in crisis; 2) the economic system was on the verge of collapse and suffering from hyperinflation; 3) unemployment was high; 4) political institutions were weak or absent; and 5) they did not have anything to lose.

Prospect Theory fits well here as reference points can be found in the five conditions mentioned above, and it supports society in imminent risk of economic collapse. The response of the citizens who once applied the neoliberal reform package of the Washington Consensus were: 1) a foreseeable future, 2) positive or neutral outlook and 3) no institutional stability. Although lack of institutional stability was nothing new, there was substantial improvement in the lives of citizens. During the implementation of the reforms, both Ecuador and Argentina improved their economic levels, which allowed them to increase employment and stimulate consumption. In addition to the loans received from the World Bank and the IMF, these countries embarked on significant infrastructure projects; for example, Argentina built the only new nuclear power plants in the region.

Although the implementation of the Washington Consensus reforms was similar across Latin America, the outcomes among the most developed nations in the region, including Argentina, were very different from those in poorly-developed nations with extractivist economies such as Ecuador.

The main differences were caused by the economic, political and social contexts on which the Washington Consensus was based.

The Ecuadorian Case

Ecuador lay between two countries suffering armed insurrections: the FARC (Revolutionary Armed Forces of Colombia) in Colombia, and Sendero Luminoso (Shining Path) in Peru. Ecuador, being relatively peaceful, could use the Washington Consensus to improve relations with the United States, increase the country's debt capacity and obtain loans from the World Bank and IMF more easily (Solimano, 2002; 1-3).

The approaches of Weyland (1998) and Stone (2009) were based on economic analysis of the Washington Consensus and although the ten points of the Consensus are purely economic, there is a broader effect. Ecuador's economic management was very different to that of other countries in the region because of the context in which it was lived and also due to the population size (10 million inhabitants) making it one of the smallest countries in the region in both population and area. The concern over guerrilla groups entering the country was high, and the country's main economic income (oil) was at a low price on the international markets. The outcome of the implementation of the Washington Consensus in Ecuador did not kill any industries since there were none that could be affected by imports of products or the privatisation of companies and public goods. Consensus reforms did not affect infrastructure either; although they did not generate improvements, neither were there delays. While the country's debt was high, starting to think about free trade agreements and the attraction of foreign investment reduced unemployment and helped stimulate consumption, and therefore the proliferation of many businesses.

Ecuador was able to obtain a favourable balance from the Washington Consensus, although the effects after implementation were similar to other countries in the short term (Solimano, 2002; 35). The continued dependence on loans by the IMF, the World Bank and other international organisations did not allow the country to control its hyperinflation, meaning it existed in a bubble of indebtedness without purchasing power and the country's debt capacity was lower than most other nations in the region where the reforms had been applied. As a result, in 1999 Ecuador became the first dollarised country in Latin America, using the US dollar as a local currency and with total dependence on the monetary policy of the United States. This drastically reduced inflation and gave financial stability to the citizens who found their debts were also reduced, even though there purchasing power had also declined.

In the Ecuadorian case, the World Bank and the IMF played a leading and articulatory role in the implementation of reforms. This triggered other indirect benefits in the country and helped improve the relationship with its primary trading partner, the United States.

The Argentinean Case

The Argentinean situation before the reforms was unique due to the size of the country, the development advantage that it had maintained over the rest of the region and the fact that the United States was not its largest commercial partner. Unlike other countries in the region, Argentina had much more infrastructure in various social aspects such as medicine, science, education

and technology. However, its economic problem was the same: hyperinflation (Feldstein, 2002; 9). High unemployment and excessive government spending represented great threats in the 1980s.
The Argentine case is one of the most illustrative when it comes to the application of the neoliberal reform package of the Washington Consensus. Being one of the most populated countries in the region (35 million inhabitants) and one of the most industrialised, the application of economic reforms addressed the economic shortcomings that the country faced after the dictatorship of the 1970s and early the beginning of the 1980s. Carlos Menem, president from 1989 to 1999, implemented market reforms based on changes suggested by the IMF and the World Bank under the Washington Consensus (Feldstein, 2002; 10-13) as he was unable to address the country's trade balance, which was forcing it into indebtedness. The privatisation of goods, public enterprises and the redirection of public expenditures for education, science and technology presented a solution to these economic problems.
Argentina did not obtain indirect benefits with the adoption of the Washington Consensus, although there were improvements in the relationship with the United States and with the European Union. These improvements were not as significant they had been in the Ecuadorian case and the neoliberal reforms and free trade with other countries resulted in the closure of many local industries due to their inability to compete with international industries in cost. Imports were cheaper; for example, almost all of the auto industry factories closed. The benefits that were obtained after the Washington Consensus were transient, and hyperinflation returned in the late 1990s and in 2000 the country was declared in default. Argentina has not managed to control inflation, and whilst it is not as high as it had been in the 1990s, the reforms had not allowed it to re-establish its industry.

Conclusions

Both the World Bank and the IMF played a fundamental role in the implementation of the neoliberal reforms proposed by the Washington Consensus, and so not only do these international bodies deserve the blame for what happened in the aftermath of the reforms, but society now demands innovative reforms that are unorthodox and provide calm to their communities. However, to blame the consequences of the Washington Consensus on the IMF and the World Bank would be absurd. The government institutions of the South American countries did not work well, as their societies were inserted into the globalisation processes and began to demand conditions that were unrealistic for the social structures of Latin America. From the society to the state is a two-way process; nobody offered anything different from the Washington Consensus. The political leaders of that moment, society and various social institutions found in these reforms a quick response to the problems that the countries had been having. It led to a decade of economic prosperity for the region, which, although having caused great disruption, also meant progress in infrastructure that has been maintained to the present day.
Finally, on the side of the application of Prospect Theory, the analysis that it offers allows us to group several aspects of the Washington Consensus and examine the relationship between relative gains and losses that the two cases show. This allows us to conclude that the Ecuadorian and the Argentine cases illustrate the considerable differences that South American countries can have and that, despite their size, they can have diverse and varied experiences, thus offering new research lines for international relations.

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