

Washington Consensus in Latin America: From Raw Model to Straw Man

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The Washington Consensus emerged in the second half of the 1980s after a prolonged period of poor economic performance in Latin America, initially reflecting a necessity more than a thoughtfully conceived plan. A number of countries in Latin America had previously borrowed heavily in US dollars, and the era of tight monetary policy under US Federal Reserve chair Paul Volcker left them in the doldrums. Several countries experienced debt defaults (from Mexico in 1982 to Brazil in 1987), deep recessions, and banking crises. In Latin America, the 1980s became known as the Lost Decade.

Latin America's debt crisis and the associated problems led to the need to reestablish financing by the private sector. US Treasury Secretary James Baker (1985) outlined a "Program for Sustained Growth" for these countries at a joint meeting of the IMF and the World Bank. A central element was that the debtor countries adopt market-oriented policies to create "more flexible and productive economies" (p. 209). John Williamson (1990b) initially coined the term Washington Consensus at a conference organized in 1989 to acknowledge the ongoing efforts made by Latin American countries in implementing structural reforms in line with macroeconomic prudence, trade liberalization, opening to foreign direct investment, and privatization, among other structural reforms that would

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attract private capital through higher expected potential output growth. Different IMF/World Bank-supported programs in the region also became blueprints of the plan.

The overarching expectation of governments, economic analysts, and financial markets alike was that the reforms would reestablish macroeconomic stability and prompt renewed growth. The Mexican economist Pedro Aspe (1993, pp. 46–47), who served as Minister of Finance in Mexico from 1988 to 1994, summarized the attitude: “The economic strategy based on fiscal and monetary discipline, consensus gathering, and the reform of the state has already yielded very encouraging results, not only in terms of short-term macroeconomic performance, but also in creating new prospects for sounder long-term growth.” If one looks back at the five-year GDP growth forecasts included in the different IMF *World Economic Outlook* vintages, the forecasts for the early 1990s often suggested annual growth rates of 5 or 6 percent for most Latin American countries (as shown in the online Appendix available with this paper at the *JEP* website).

But controversies over the Washington Consensus immediately blossomed. Across Latin America, several political groups opposed the Washington Consensus policies, for two main reasons: some saw them as imposed by the United States in an effort to increase its control over Latin American countries and promote the interests of international companies; while others considered that these policies had already been tried in the 1980s and had failed to stabilize the economy, entailing a high economic cost.

Even at the outset, it was unclear that these were “consensus” policies. Williamson’s (1990a) ten-point list was a descriptive exercise of what was happening in the context of the debt crisis, and it thus tended to focus on areas that were already being covered in early reformer countries like Chile, Mexico, and Bolivia. A number of analysts argued for a more prescriptive list that would identify other topics, including environmental policies and a clear plan to fight poverty. Furthermore, most countries implemented only parts of the reforms, and results were mixed. After decades of disappointing economic growth, the five-year GDP growth forecasts from the IMF have now declined significantly for all Latin American countries, reaching a meager 2–3 percent even before the pandemic recession.

In this paper, we begin with Williamson’s (1990) ten-point Washington Consensus and explore how Latin American countries responded, or didn’t, to the recommendations. We then present short case studies of Brazil, Mexico, and Chile. Brazil and Mexico are chosen because together they account for more than half of the total population and GDP in the region as a whole. Chile, in turn, was commonly viewed as the poster child for economic reform in Latin America in the 1980s, but the reforms were implemented by a military dictatorship until democratic elections returned in 1989. An important question in the region, then, was whether these initially painful reforms were doable in a democracy. Moreover, these three countries are each a home base for one of the authors of this paper. We emphasize that despite some broad similarities, the degree of implementation and the timing of the Washington Consensus policies varied substantially across countries.

For varying reasons, all three countries would become dissatisfied with the direction of economic policy over time.

Following the case studies, we assess the performance of the Washington Consensus in hindsight, after 30 years, considering metrics like inflation, productivity, and growth. We also look at poverty and inequality because they are relevant indicators of welfare—although they were not directly the focus of the Washington Consensus reforms. A fair assessment of the performance needs to recognize that no country adopted the Washington Consensus exactly as it was designed or as it was implemented in other countries. Relative success depended not only on the degree of implementation but also on country specificities and external shocks. In addition, we draw a distinction between core Washington Consensus policies that were enacted in the late 1980s and early 1990s and new policies that were implemented in the late 1990s and the 21st century. It is important to acknowledge that today's lens on the Washington Consensus policies differs substantially from the original perspective, because the situation, the stock of knowledge, and social values have all changed over time.

What Was Adopted? The Reality of the Washington Consensus in Latin America

Following John Williamson's (1990) ten overarching principles for the Washington Consensus, we offer here an overview of how they were implemented in Latin America.

1. Fiscal discipline, with a deficit of 1 to 2 percentage points of GDP considered adequate.

Most Latin American countries did not achieve the goal of a fiscal deficit below 2 percent of GDP on a sustained basis. Initially, many countries in the region—including Chile and Mexico—achieved significant progress with a combination of contained deficits and growth (often tied to IMF programs). Later, however, results became deeply heterogeneous. A few countries like Chile, Colombia, Peru, and Mexico managed to contain deficits and debt despite the Asian Crisis of 1997, which worsened external financial conditions markedly. Others entered complex dynamics requiring new IMF programs, and a few ended in default, like Argentina and Ecuador around 2000. In the following decade, a few countries, notably Chile and Peru, continued lowering debt significantly, partly thanks to very high export prices—the so-called “commodity price super-cycle.” Others kept debt at manageable levels like Colombia and Mexico, while a few continued to be marked by fiscal challenges. After important fiscal consolidation in the late 1990s and early 2000s, Brazil continues to face fiscal challenges and currently has a higher debt than its peers. The region again saw sovereign defaults in Ecuador (2008), Argentina (2014), and Venezuela (2017).

Within fiscal measures, pension reform was another notable policy shift, although it was not directly linked to the original Washington Consensus. Several

countries reformed their old-age pension schemes into a fully funded system, including Chile in the 1980s and Argentina, Colombia, Mexico, and Peru in the 1990s. These reforms became a way to escape the medium-run fiscal pressure from pay-as-you-go systems as well as a powerful tool for developing the capital market.

2. Public expenditure reallocation into priority sectors, namely, education, health, and public investment.

In public discussions of the Washington Consensus, people are sometimes surprised to discover that reallocation of public expenditures into priority sectors was its second point. Indeed, a common criticism of the Washington Consensus is that it paid insufficient attention to education and health. Of course, this recommendation to reallocate spending into priority sectors probably reflected concerns about productivity growth, rather than direct social and anti-poverty efforts.

It seems fair to say that the original Washington Consensus policies largely neglected income distribution and other social issues (such as social mobility) and never consolidated them in an organized way. Similarly, there was a lack of emphasis on education as an essential social mobility tool and a key ingredient of long-run growth. However, since the second half of the 1990s, these issues have become an increasingly important part of the agenda, and Latin America has seen an increase in spending on social programs. In Brazil, expenditures on social programs (such as conditional cash transfers to the poor through Bolsa Familia) increased from 9.8 percent of total spending in 1997 to 17.4 percent in 2019. In Mexico, social expenditure, including education, health, and poverty alleviation programs, increased from 30 percent of total public spending in the 1980s to 51 percent in the 1990s and 68 percent in the 2010s. In the same period, the expenditure share of previously state-owned firms and public investment declined. In Chile, between the 1990s and the 2010s, the share of education and health in total spending increased from 25 percent to 40 percent; this was made possible by cuts in defense and pensions (due to the end of the pay-as-you-go system).

3. Tax schemes characterized by a broad tax base, moderate marginal tax rates, and a strong tax administration, as fiscal revenues had to support the needed public investment and expenditure.

Countries across Latin America cut their top tax rates (Lora 2001; Trading Economics 2021; and OECD Tax Database 2021). Between 1986 and 1999, the median maximum personal income tax rate was slashed by 20 percentage points and the top corporate tax rate by 8 percentage points. The maximum personal income tax rate was cut from 60 to 25 percent in Brazil, from 55 to 35 percent in Mexico, and from 50 to 45 percent in Chile. In that same time frame of 1986 to 1999, the top corporate income tax rate fell from 45 to 25 percent in Brazil and from 42 to 34 percent in Mexico—although it rose slightly from 10 to 15 percent in Chile. In all three countries, the value-added tax rate remained relatively stable in the range of 15 to 20 percent, although Mexico maintained reduced value-added tax rates for specific regions and certain goods.

Taking these changes as a whole, the share of consumption tax revenues declined somewhat in Brazil, Mexico, and Chile, while the share of income taxes (the sum of corporate and personal) grew modestly. In Brazil, for example, consumption tax revenues fell from 48 percent of total tax revenue in the 1990s to 46 percent in the 2000s, and income tax revenues rose from 19 to 21 percent of all revenues during that span.

In general, with the exception of Argentina and Brazil, income tax revenues and total tax revenues have remained low in Latin America compared to higher-income countries. For example, total tax revenues increased significantly in Mexico after the 1994 “tequila crisis,” but remain well below 20 percent of GDP. Total tax revenues in Chile barely rose to 19 percent. In Brazil, significant indirect taxes and other types of revenue dominated, elevating the total tax burden to 32–35 percent of GDP.

4. Market-determined interest rates and real rates at moderate positive (or at least not negative) levels.

Practically all Latin American countries liberalized interest rates between 1985 and 2000 (Lora 2001). By 1992, all countries in South America had freed interest rates. Although some countries maintained some earmarked lending, the region moved toward global banking standards relatively quickly. Since prudential financial regulation was strengthened and Basel regulatory standards were adopted, there have not been any widespread banking troubles. In Brazil, Mexico, and Chile, the financial sector has been quite resilient despite occasional large shocks. Of course, the region has seen other banking crises—for example, Argentina in 2001–02 and Ecuador in 1998—but it is difficult to connect those to the Washington Consensus; rather, they were part of macroeconomic experiments that went wrong.

During these 30 years, the Latin American financial system deepened significantly, and financial liberalization contributed to both access to financing, especially in nontradable sectors, and economic growth (Tornell, Westermann, and Martínez 2003). Progress in liberalizing financial markets is also reflected in global market access and foreigners’ participation in local debt markets, which have developed substantially—also fostered by private pension savings (Borensztein et al. 2008).

5. Competitive exchange rates to support export-led growth, while avoiding multiple exchange-rate regimes, where the exchange rate could either be market-determined or set at a level consistent with a sustainable current account deficit.

Exchange rate regimes in Latin America generally became more flexible in the 1990s. However, “intermediate” exchange-rate regimes (in the middle ground between floating and fixed) were still prevalent, which allowed for some but not full flexibility. Crawling exchange-rate bands and pegs that were adjusted only occasionally were subject to speculative attacks. Since the late 1990s, countries in the region have moved away from such intermediate exchange-rate regimes, because they discouraged firms and investors from managing exchange-rate risk and thus could lead to periods of false stability punctuated by disruptive shocks.

In the last decade, the majority of Latin American countries maintained floating exchange rate systems, although still leaving open the possibility of occasional intervention in special circumstances. Overall, markets have clearly had an increasing role in determining the exchange rate (Levy-Yeyati and Sturzenegger 2016; Ilzetzki, Reinhart, and Rogoff 2019). Multiple official and unofficial exchange rates are a thing of the past, except in Argentina and Venezuela.

The monetary and exchange-rate framework in Latin America has gone well beyond what was initially envisaged by the Washington Consensus. With inflation targeting by central banks serving to anchor price levels, authorities have become more comfortable with allowing the exchange rate to act as a buffer for shocks. Moreover, despite a common belief, the Washington Consensus did not call for the removal of capital controls as a priority, because this policy lacked consensus among economists and policymakers at the time. Nonetheless, many countries in Latin America have eliminated their historical capital controls, including Brazil, Mexico, and Chile.

6. Trade policy aimed at liberalizing imports to allow exporters access to the necessary capital and intermediate goods to be competitive in international markets; in particular, reducing tariffs to 10 to 20 percent, with low variance and removing all other forms of import barriers.

Latin America has advanced toward greater openness to trade, but with some notable exceptions. Chile and Mexico (and later Peru and to some extent Colombia) opened up to trade by cutting tariffs and signing free trade agreements with crucial partners, thus embracing an open-economy development strategy. By different measures, they have become more trade-integrated than many industrialized countries.

Brazil (and Argentina), in contrast, cut some tariffs but kept key import barriers. Protectionism and the idea of a growth strategy based on import substitution is still part of the ideological matrix of the private sector. In comparison with the world average, Brazil remains a closed economy (as shown in Figure 1B). Similar patterns emerge from other sources like the “de jure trade openness” measure calculated by the KOF Swiss Economic Institute Globalization Index.¹

7. Opening to foreign direct investment as a way to obtain much-needed capital investment, along with skills and know-how.

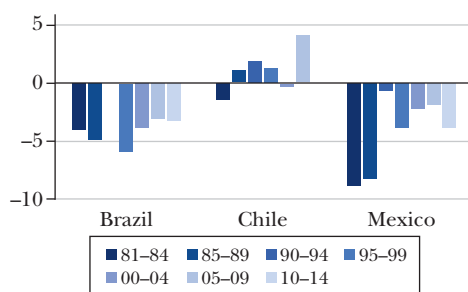
Latin America has opened to foreign direct investment but with mixed results. While net inflows to Latin America increased (Figure 1C), the regional average barely surpassed the world average. Inflows to Brazil and Chile have more than doubled since the 1990s (including both green- and brownfield investments). In

¹The KOF trade globalization de jure index is calculated as the weighted average of five variables: trade regulations or non-tariff trade barriers and compliance costs of importing and exporting, trade taxes calculated as the income from taxes on international trade as percentage of total revenue (inverted), the unweighted mean of tariff rates and the number of bilateral and multilateral free trade agreements.

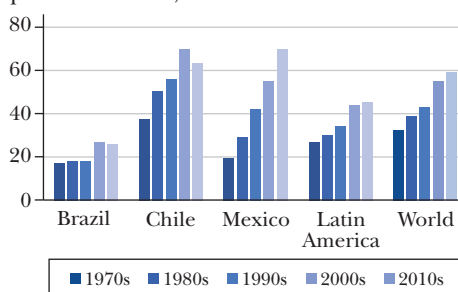
Figure 1

Some Evidence on Implementing the Washington Consensus in Latin America

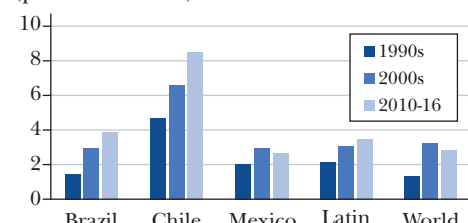
A: Overall fiscal result (percent of GDP)



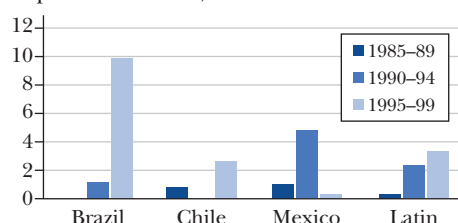
B: Trade openness (exports + imports as percent of GDP)



C: Net foreign direct investment (percent of GDP)



D: Privatization (cumulative flow per period as percent of GDP)



Source: Panel A: Mauro et al. 2013 and International Monetary Fund World Economic Outlook databases. For Brazil, Banco Central do Brasil, Department of Statistics (2021). Panels B and C: World Bank World Development Indicators. Panel C: World Bank. Panel D: Lora (2001).

Note: Privatization refers to the proceeds received by the government from the partial or complete sale of company shares to the private sector.

contrast, Mexico has not been able to attract significant net inflows despite having a privileged geographical position for US offshoring. There has also been an important difference between oil-rich and mining countries in the region. The former have generally decided to maintain the energy sector exclusively in the hands of the state, whereas the latter expanded private mining significantly.

8. Privatization to relieve public deficits and improve efficiency and competition.

Latin America saw an immense privatization push in the 1990s, with cumulative proceeds of 6 percent of GDP (Figure 1D). This total represents close to 60 percent of all emerging market privatization revenues in that decade (Chong and López-de-Silanes 2005). The economic share of state-owned enterprises in Latin America fell from 10 percent in the late 1980s to 5 percent by the late 1990s. This positioned the region slightly above state-owned (relative) activity in industrialized countries and well below Asia. In Brazil, Mexico, and Chile, a good part of once state-run services

is now private. Oil remains mainly state-owned. Chong and López-de-Silanes (2005) find that privatized firms' profitability and efficiency increased, closing their gap against private sector benchmarks. However, the authors also find that many privatizations were not accompanied by adequate contract design and regulation, and they suffered from regulatory capture.

9. Deregulation to promote competition by eliminating different types of barriers to entry or privileges to specific firms.

Fostering competition has been a rocky road in Latin America. Antitrust institutions have developed only gradually, and there are areas where contestability is still limited in some countries (for example, airline routes). Profitability in specific industries has been abnormally high (for example, in banking and the private pension system). The Product Market Regulation Index published by the Organization for Economic Cooperation and Development (OECD) reveals that Brazil ranks very low, Chile is average, and Mexico is in between, despite some progress in absolute levels in the last ten years.²

10. Strengthening of property rights, which were viewed as fundamental to the proper functioning of the economy and specifically the promotion of private investment.

Various indicators of (relative) property rights protection and the rule of law show that progress has been unimpressive and somewhat uneven. We focus here on the Political Risk Services (PRS) International Country Risk Guide, as it is the standard for growth empirics (Barro 2015), and the World Bank Governance Indicators, which has the highest correlation with changes in future growth (Díaz and Valdés 2020).³ On average, between 1996 and 2006, South American countries plus Mexico recorded a decline in their percentile rating in the PRS Rule of Law category and then remained stable in the following decade. On the World Bank measure of Control of Corruption, the average South American country improved about 3 percentage points between 1996 and 2006 but suffered a larger setback in the following ten years.

By both measures, Chile consistently ranks higher than Brazil and Mexico. For example, in the PRS Rule of Law rating, Brazil increased from 3 percent in 1996 to 12 percent in 2006, while over that interval Mexico rose from 3 to 37 percent and Chile rose from 60 to 68 percent (for a reference, PRS ranks the Scandinavian countries at the top, while the median OECD has a percentile rank of 83 percent). On the World Bank Control of Corruption measure, Brazil went from a score of 57 out of 100 in 1996 to 54 in 2006, while Mexico increased from 36 to 47, and Chile rose slightly from 90 to 91 (for a reference, the median OECD country has a score of 93).

²This ranking includes all OECD countries plus Argentina, Brazil, Bulgaria, Costa Rica, Croatia, Cyprus, Indonesia, Kazakhstan, Malta, Romania, Russia, and South Africa.

³The choice of indicators is not obvious, as they show mixed results. For example, the Heritage Foundation property rights ranking shows an improving picture in Brazil, Mexico, and Chile.

Country-Specific Issues: Adoption, Timing, and Outcomes in Brazil, Chile, and Mexico

This section summarizes the adoption of Washington Consensus policies and the resulting outcomes in Brazil, Chile, and Mexico. Brazil only partially adopted the Washington Consensus reforms with unsatisfying results. Chile is certainly a poster child for early implementation and success, although a more nuanced view emerges in hindsight, especially of the recent past. Mexico implemented some of the Washington Consensus policies early on, but results have been rather disappointing. Table 1 illustrates our assessment of the degree of adoption of each of the ten principles of the Washington Consensus for the three case studies. In this section, we present further details on the adoption, timing, and results of the different policies in each of the three countries.

Brazil: Half-Hearted Adoption, Unsatisfying Outcomes

In the late 1980s, when the Washington Consensus debate appeared, Brazil was negotiating with creditors after defaulting on its debt. The economy was suffering from high inflation and bouts of hyperinflation. There was a widespread perception that the inward-oriented import substitution model—with substantial government intervention in the economy—had failed. The need to rein in inflation was the focus of policy efforts, which included a series of inflation stabilization plans: namely, the Cruzado plan of 1986, the Bresser plan of 1987, the Verão plan of 1989, and the Collor plan of 1990. These all failed to control high and hyperinflation, either because they lacked fiscal consolidation and monetary policy credibility or because they did not adequately deal with inflation inertia. Finally, the successful Real plan of 1994 solved these issues and led to a sequence of other reforms, several of which coincided with the Washington Consensus.

Brazil adopted the Washington Consensus reforms half-heartedly. Key early supporters of the Washington Consensus included influential former ministers and congressmen (including Mario Henrique Simonsen and Roberto Campos), who favored a smaller role for government, privatization of public companies, and less regulation. However, the perception that the Washington Consensus was a US idea and part of an IMF program conditionality led to a backlash. For example, Bresser-Pereira (1991) argued that it was necessary to overcome the fiscal crisis by reducing or canceling the public debt and recovering the savings capacity of the state. There were more balanced views, too. Malan (1991, p. 11, our translation) argued that “there is no single path, no simple formula or simple model to be followed. Each country in the region must analyze in-depth what it could be in the future. . .and adopt the ‘appropriate policies.’”

Ultimately, Brazil partially adopted the Washington Consensus agenda, including fiscal consolidation (for a limited period of time), privatization, market-determined interest rates (despite substantial earmarked lending), and floating exchange rates (with exceptions, such as 1994–98).

Table 1

Washington Consensus Adoption in Brazil, Chile, and Mexico, 1990–2005

<i>Williamson's Overarching Principles</i>	<i>Brazil</i>	<i>Chile</i>	<i>Mexico</i>
1. Fiscal discipline (deficit of 1–2% of GDP)	○	●	●
2. Public expenditure reallocation into priority sectors	●	●	●
3. Broader tax bases and moderate marginal tax rates	●	●	●
4. Market-determined and positive real interest rates	●	●	●
5. Competitive exchange rate, single regime	●	●	●
6. Trade liberalization, tariffs at 10–20% and low variance	○	●	●
7. Opening to foreign direct investment	●	●	●
8. Privatization to relieve public deficits and foster efficiency	●	●	●
9. Deregulation to promote competition	●	●	●
10. Property rights protection	●	●	○

Source: Authors' assessment based on Figure 1, online Appendix (available at the *JEP* website), and text.

Note: White circles indicate low policy adoption and poor outcomes; gray, medium adoption and intermediate outcomes; and black, extensive adoption and strong outcomes.

The early steps toward fiscal consolidation included, in the late 1990s, a series of agreements with states and municipalities that capped the chronic spending and indebtedness of these local governments. Following a major fiscal adjustment in 1998–99, the approval of a Fiscal Responsibility Law in 2000 paved the way for 15 years of primary surpluses (several within IMF agreements), which helped stabilize public debt dynamics and the economy for some time. However, fiscal discipline has been gradually lost over the last decade or so, and local governments have created new rounds of budgetary troubles. Therefore, Brazil's legislative agenda continues to be dominated by the need for fiscal reforms, such as an overall spending cap (2017) and pension reform (2019). Other fiscal changes are currently under debate, including the administrative reform (on public sector wages and promotions).

The privatization process in Brazil continues to the present, but it has been slow and incomplete. The initial push was strong, with the telecommunications, banking, and mining sectors being privatized in the 1990s. The process continued with infrastructure concessions, the selling of oil field rights, and, more recently, the privatization of water and sewage companies. The government has also initiated efforts to privatize smaller companies, but it has not accepted selling the sacred cows, such as Petrobras (oil company) and Caixa and Banco do Brasil (banking sector).

There was substantial progress in financial liberalization, and the current perception is that interest rates and exchange rates are determined by the market. Several state banks were privatized in the mid-1990s. The government also liberalized the financial system and reduced public control of the banking sector. These conditions allowed interest rates to reach record low levels in 2017–20. Additionally, legislation in 2017 implemented market-oriented pricing in the national development bank (Banco Nacional de Desenvolvimento Econômico e Social or BNDES), allowing private capital markets to boom. Notwithstanding the financial

liberalization reforms, almost half of Brazil's credit is still government-directed lending (housing, agriculture, and BNDES), and two public banks are among the top five largest banks in the sector.

Trade openness, one of the main Washington Consensus reforms, was never adopted in Brazil. Unlike most of the rest of Latin America, Brazil remains one of the most closed economies in the world, due mostly to a political economic legacy of industries created under the import-substitution framework and the perception that there is a large domestic economy to defend. Despite some reduction in tariffs in the early 1990s during the short Collor government, tariffs and other barriers remain very high, and the only relevant trade agreement—Mercosur, with Argentina, Uruguay, Paraguay, and a few associates—has mostly diverted trade, rather than creating more of it.

The measures Brazil adopted in the 1990s were essential to stabilize rampant high inflation, avoid balance-of-payments crises, and prepare the economy to take advantage of the commodity boom of 2003–13, with gains in poverty alleviation. But the reforms were not enough to generate sustainable results. In particular, productivity growth performance has remained dismal.

Mexico: Early Implementation, Disappointing Results

Mexico suffered a severe economic and financial crisis in 1982. Authorities declared an external debt moratorium and nationalized the banks to stop the speculative attack against the peso. A new and more orthodox government took office shortly thereafter and embarked on an IMF-supported program, which included several aspects of the Washington Consensus, such as abandonment of the dual exchange rate regime, fiscal adjustment, some privatizations, and the beginning of the trade liberalization process, which included the incorporation of Mexico into the General Agreement on Tariffs and Trade (GATT) in 1985.

Despite the significant adjustment and the implementation of several Washington Consensus policies, another financial crisis took place at the end of 1987, with inflation peaking at 157 percent. This was probably the reflection of several events: a 1985 earthquake, the crash at the New York Stock Exchange in October 1987, and the impact of a significant drop in the oil price.

The Washington Consensus policies caused political controversy. The party that had ruled Mexico for 60 years, the *Partido Revolucionario Institucional* (PRI), ruptured in 1988, resulting in the split-off of the left-leaning *Partido de la Revolución Democrática* (PRD). One reason behind the split was a sense that the PRI had become less democratic, but the outward and market-oriented vision of the PRI also played a significant role (Márquez and Meyer 2010), especially because it meant that these policies were affecting the interests of very powerful groups.

A year later, with the beginning of a new government, the country launched an ambitious reform program as part of a stabilization plan that included an agreement on the trend of price adjustments among labor unions, the private sector, and the government. The program incorporated important elements of the Washington Consensus. In less than five years, authorities privatized leading state-owned

companies; enacted a fiscal reform aimed at increasing the tax base and reducing marginal tax rates, while significantly reducing the fiscal deficit; liberalized the financial system and the financial account (both foreign direct investment and portfolio); and reduced barriers to entry in strategic sectors. In some cases, these policies went beyond the Washington Consensus, while in others the recommendations were implemented only partially. One important reform was trade liberalization during the first half of the 1990s, which culminated with the signing of the North American Free Trade Agreement as well as other free trade treaties.

The opening to international competition contributed to macroeconomic stabilization as well as to market discipline in the tradable sector. Moreover, the manufacturing sector registered double-digit annual growth rates for more than a decade and significant increases in productivity. However, the nontradable sector in Mexico has been less dynamic. Despite some flexibility, private investment in the energy sector remained very restricted until 2013. This translated into low investment rates, declining productivity, and even lower production. In other services, such as telecommunications and transport, there is still significant room for improvement through deregulation, the implementation of adequate regulation to facilitate business operation, the reduction of barriers to entry, and the fight against monopoly power.

In the last two decades, Mexico's growth has been disappointing, productivity has increased very slowly, and real wages have remained almost flat. One extreme view is that this lack of progress is due to the Washington Consensus model itself; at the opposite extreme, others argue that the reforms were not deep enough (Gil Díaz 2003) or that the implementation was weak (Cordera and Lomelí 2002). Another argument is that the Washington Consensus left out relevant issues (Grupo Huatusco 2004). External shocks, especially the expansion of China in world trade and its impact on manufacturing and commodity prices, had a negative effect on Mexico's terms of trade, while other Latin American economies benefited as commodity exporters. According to Levy (2018), one significant limitation to economic growth is the perverse incentives that persist in the labor market. The relatively high taxes and social security contributions in the formal sector generate a large and increasing informal sector characterized by low productivity and wages. Additionally, the persistent low quality of education in Mexico, even as it has improved in other emerging markets, has severely limited the accumulation of human capital. For a long time, the teachers' labor union was powerful enough to stop any attempts to reform. It was not until 2013 that the government took a step in the right direction, but a counter-reform in 2019 eliminated the fundamental changes. Broad access to quality public education remains pending. Public expenditure and investment are still very inefficient (Esquivel 2003; Izquierdo et al. 2017).

Finally, a critical factor has been Mexico's dreadful performance on property rights or, more generally, the enforcement of the rule of law—perhaps the weakest aspect of the country's economic institutions. Even by Latin American standards, Mexico stands out for the level of corruption, the lack of access to justice for most of the population, the rampant power of mafias, and the weak protection of property

rights, among other issues related to the weak legal institutions. There has been progress with the publication of a new bankruptcy law in 2000, the constitutional reform of the judicial system of 2008, which deeply transformed the Mexican legal system and the constitution of specialized courts for antitrust and telecommunications cases. These efforts have clearly been insufficient as most of the legal and judicial system indicators have worsened in recent years. There is overwhelming agreement regarding the negative impact of the weak legal framework not only on economic growth, but also on the quality of life of the Mexican people.

Chile: Success, but Less So in Hindsight

There was very little political opposition to the Washington Consensus in Chile, partly because it was implemented under a military dictatorship. Some elements of the Washington Consensus, like greater security for property rights, trade integration, privatization, and openness for direct investment, had been implemented in the 1970s. For example, of the 570 companies that the state controlled in 1973, only 24 were still publicly held in 1983. After a brief stint with heterodox policies after a deep economic crisis in 1982–83, Chile adopted almost all the Washington Consensus policies. Meller (1990, 1996) reports that the Chilean economic team that took control in 1985 was considered a more avid fan of the IMF than even the IMF itself. Privatizations in 1985–88, the tax reform of 1986, and policies to support a competitive exchange rate were fundamental.

After Chile's transition to democracy in 1989, the first (center-left) democratic government continued to embrace the Washington Consensus. Trade integration, increasing exchange rate flexibility, and prioritizing spending on social needs became landmarks of economic policy. Moreover, John Williamson was seen as somewhat progressive (and a friend) by local economists, so the Washington Consensus was not perceived as a US imposition. Productivity increased vigorously in 1987–2010, notably in the first decade, led by foreign direct investment in mining and the development of new export sectors. Since the mid-1990s, macroeconomic policies have remained well-aligned with best practices, including the adoption of a full-fledged inflation-targeting regime, a floating exchange rate, and a fiscal rule. Macroeconomic stability is now basically taken for granted. The country also made progress with infrastructure investment through public–private partnerships and new social strategies, such as a public system of health guarantees, unemployment insurance, a minimum pension scheme, and many education reforms. A few economists criticized the floating exchange rate regime and financial integration (for example, French-Davis 2005), and there has recently been some political push-back against privatized public services—especially toll roads, which are considered expensive, and any public service that suffers an interruption—but there have been no serious attempts to reverse any of these policies.

Changing spending priorities and deregulation were the only two elements not fully implemented during the Pinochet military dictatorship and later on during democracy, although there was some progress. Spending was duly concentrated on social needs after 1990, but it remained limited relative to the size of the

economy. Partly due to the small size of the domestic market and a history of large economic family-owned conglomerates, ownership continued to be quite concentrated. Privatized companies also ended up in only a few hands, and though foreign direct investment expanded significantly, it has been concentrated in mining and nontradable industries where it is more difficult to have several players. Regulations fostered competition in some areas (like telecoms), but they were not as effective in others (like fisheries and the private pensions system). Developing a strong and independent antitrust agency took almost two decades.

Despite evident economic progress over the last three decades, Chile suffered severe social unrest in October 2019. In response to the widespread protests and violence, the main political parties agreed to a referendum vote on a new constitution to be written by an elected assembly in 2021. There are competing theories as to why so many Chilean citizens became fed up with the government, politicians, and institutions. One hypothesis is that relatively low per capita growth in the last few years, coupled with substantial immigration, stressed a large but still vulnerable middle class. Another explanation is that social tensions gradually accumulated as citizens' priorities changed while the social contract was overly slow to adapt. UNDP (2017) summarizes the findings of their annual reports of the last 20 years as follows: "in 1999, Chileans mainly dreamed of becoming an economically developed country; in 2016, they dreamed of having a safer, more protective, and fairer country" (p. 32).

Chile has built an excessively unequal society behind its apparent macroeconomic success. Strong growth helped poverty decline very quickly, while an emerging middle class expanded. However, besides a poor and slowly improving income distribution, there are limited risk-sharing arrangements and a widespread perception of unfair procedures given the country's income level. For example, the core of the pension system is based on individual capitalization accounts, and there is a two-tier health system, with a state-managed, low-quality tier for 80 percent of the population and a more developed tier for the wealthiest 20 percent. In contrast to many developed countries, Chilean cities and education are quite segregated. The middle class feels overindebted after having massive access to credit. There is low penetration into a wealthy and powerful elite (Zimmerman 2019), and there is a perception of vast impunity for the elite's wrongdoings. Additionally, markets appear to be too concentrated, competition in specific industries is weak, and some businesses have proved to be too intertwined with politics. Some of these shortcomings are unrelated to the core of the Washington Consensus, but some do relate to better regulation, more competition, and public spending volume and priorities.

Performance after Three Decades: Improvements in Inflation and Poverty but Dismal Productivity Growth

Our description of the evolution of the Washington Consensus in Brazil, Mexico, and Chile illustrates some of the difficulties in evaluating the "consensus."

It is challenging to untangle the effects of several other policy initiatives, the lack of proper implementation, and external shocks. Commodity cycles, for example, have definitely been quite relevant for the region's short-run growth performance in certain periods. These problems are magnified three decades later: improvements in some of the indicators in the latter part of the period probably do not reflect the direct impact of the Washington Consensus policies, but rather derive from new policy agendas. One could argue, however, that the Washington Consensus policies may have set the stage for the new agenda and thus had an indirect impact on the outcomes.

In this section, we discuss the economic performance of Latin America along various dimensions since the 1980s. Outcomes from the 1990s, in particular, tend to have a more direct connection to the Washington Consensus policies, while outcomes since about 2000 are progressively influenced by additional policies and events. Overall, Latin America made progress in reducing inflation and, since 2000, poverty, but growth/productivity performance was generally poor. Table 2 summarizes our assessment of the key outcomes in our three countries for the full period.

Inflation

One important achievement of the Washington Consensus policies was taming inflation. The median annual inflation rate in Latin America was 100 percent in the 1980s, with occasional hyperinflation well above that level. The median inflation rate fell to about 40 percent in the 1990s, and it has been 5–6 percent per year since 2000 (based on IMF data). Inflation volatility also declined significantly in the 1990s—progress that remains today. Very few Latin American countries still regard high inflation as a primary concern.

Several countries have consolidated these gains against inflation by legislating or granting functional central bank independence and also adopting successful inflation-targeting regimes. This went beyond the original Washington Consensus recommendations, following newer best practices in monetary policy. For example, according to the Garriga (2016) index of central bank independence, Chile, Colombia, Mexico, and Peru increased their central bank independence significantly in the 1990s. Central bank independence and inflation targeting gained importance as Latin American countries moved toward a more flexible exchange rate regime. By the end of the 1990s, this became a cornerstone of greater macroeconomic stability in many Latin American countries.

Growth and Productivity

Latin America's growth performance in the last three decades improved relative to the 1980s, but it has fallen short of expectations at the outset of the Washington Consensus and has been consistently poor relative to other emerging markets. Regional real per capita GDP (measured using purchasing power parity exchange rates) *declined* –0.4 percent per year during the lost decade of the 1980s, and it has grown 1.2 percent per year since 1990. For comparison, per capita GDP in advanced economies gained 1.3 percent in the 1980s and 1.5 percent since 1990, while in emerging markets as a group, per capita growth accelerated from

Table 2

Performance in Brazil, Chile, and Mexico, 1990–2020

<i>Key outcomes</i>	<i>Brazil</i>	<i>Chile</i>	<i>Mexico</i>
Productivity growth	○	●	○
Inflation	●	●	●
Change in poverty	●	●	●
Change in income distribution	●	●	●

Note: White circles indicate a poor outcome; gray, intermediate; and black, strong.

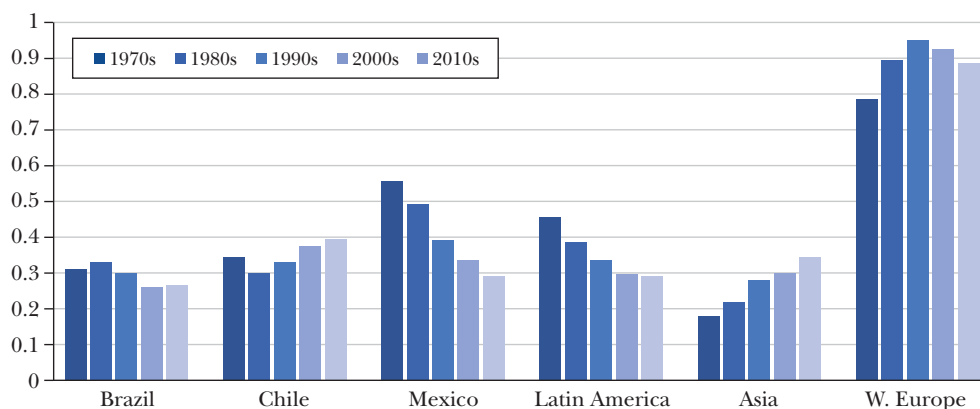
1.2 percent annually in the 1980s to 3.2 percent since 1990. In Latin America, only Chile had a higher growth rate than the average for emerging markets.

Overall, the evidence suggests that countries that more fully adopted the Washington Consensus policies generally had a better growth performance. For example, in this journal, Fraga's (2004) early evaluation of the Washington Consensus finds that the Latin American countries that were more active in carrying out the consensus reforms also experienced better economic performance, whereas Ocampo (2004) offers a nuanced view, worrying particularly about procyclical macroeconomic policies and weak productivity growth. In more recent studies, Estevadeordal and Taylor (2013) find a positive and significant impact of trade liberalization on economic growth. Easterly (2019) presents three stylized facts that cast doubts on the alleged failure of the Washington Consensus policies to foster growth. Grier and Grier (2020) show that Washington Consensus policies did reliably raise average incomes: countries that had sustained reform were 16 percent richer ten years later. In our case studies, Chile performed well, while more mixed adopters, such as Brazil and Mexico, underperformed.

Of course, long-run growth is necessarily built on productivity. Latin America has had an endemic shortfall of savings and investment, a situation that did not change with the Washington Consensus. From 1980 to 2019, emerging market economies worldwide averaged a savings and investment rate of 27 percent of GDP (according to IMF data). Over the last four decades, Brazil and Mexico remained significantly below the emerging market average on both fronts. Chile had a few periods with higher investment, especially in the 1990s, but these bouts were short-lived. However, Bakker et al. (2020) conclude that total factor productivity, rather than investment ratios, explains the slow income convergence of Latin America and the Caribbean in comparison with Emerging Europe.

Productivity requires human capital accumulation. According to OECD data, Brazil, Chile, and Mexico increased expenditure on education between 1 and 2 percentage points of GDP between 1990 and the early 2000s. This trend continued in the following decade. Though available data are more sporadic for other countries, the overall picture for Latin America is similar. As a result, Latin America's gross enrolment rate in secondary education increased from 77 percent in 1990 to 85 percent in 2000 and 89 percent in 2010. In our three countries, secondary

Figure 2

Productivity: Output per Hour Worked Relative to the United States

Source: The Conference Board Total Economy Database

Note: Latin America: Simple average of Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. Asia: Simple average of China, Hong Kong, India, Indonesia, Japan, Malaysia, Myanmar, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and Vietnam. Western Europe: Simple average of Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom.

education for the 20- to 24-year old population increased to an average of 3.7 years by 2010, 1.4 years more than in 1990. But the quality of education remains poor. For example, in the 2000 Programme for International Student Assessment (PISA) test, Latin American countries were at the bottom of the results, even below what should be expected given per capita income. In the 2009 PISA round, the region improved in reading but was still low in the rankings.

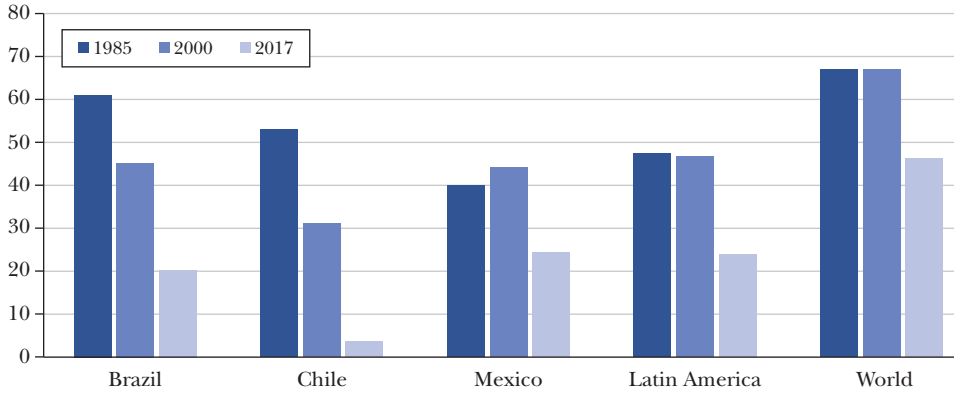
Not surprisingly, the growth of output per hour in Latin America relative to the United States declined, in marked contrast to Asia, as shown in Figure 2. In the region, only Chile managed some relevant catch-up in the last 30 years. Mexico is perhaps the most puzzling: it continued its previous relative declining trend after the Washington Consensus. Brazil also had a poor performance.

Interestingly, the countries that are perceived to have closely followed Washington Consensus policies—namely, Chile, Colombia, and Peru—had a better performance in the last three decades in terms of reversing the decline of the 1970s and 1980s to a degree. The countries that departed the most from the Washington Consensus, like Argentina and Venezuela, recorded a poor growth performance, as well as high volatility.

Poverty

Reducing poverty rates was not an explicit goal of the Washington Consensus policies. Based on the World Bank poverty line of US\$5.50 per day for upper-middle-income countries, the Latin American region in general had essentially no decline

Figure 3
Poverty Head Count
(percent of total population)



Source: World Bank World Development Indicators.

Note: Poverty is defined as US\$5.50 per person per day, at 2011 purchasing power parity exchange rates.

in poverty rates from 1985 to 2000. Figure 3 shows that poverty rates fell substantially from 2000 to 2017 in the region, reflecting the benefits of the commodity boom, higher growth in some countries, and targeted transfer programs in others.

In the late 1990s, government expenditure in Latin America was reallocated to social programs to reduce poverty and increase social mobility. Countries moved away from general food subsidies and guaranteed prices for essential crops, shifting to conditional cash transfer programs that target the most disadvantaged segments of the population, an instrument which was not part of the Washington Consensus. Brazil and Mexico both developed this type of national poverty alleviation program. The names of the programs have changed with new governments—Bolsa Escola/Bolsa Familia in Brazil and Progresa/Oportunidades/Prospera in Mexico—but the programs themselves remain firmly in place. Several other Latin American countries, including Argentina, Colombia, Ecuador, Honduras, and Nicaragua, developed similar cash transfer programs. Formal program evaluations suggest a significant increase in school attendance (Rawlings and Rubio 2005).

Despite the benefits of most of these programs on poverty, the intergenerational transmission of poverty has been only marginally reduced in the last 20 years or so. Programs have focused mainly on solving access problems, without any direct effect on supply or quality shortcomings. Thus, deficiencies in the quality of education, health services, and even iron supplements have affected the long-term impact of the programs (Lomelí 2008).

Income Distribution

Although income distribution remains unequal and is an important issue going forward, there was more progress than what the limited GDP and productivity growth would suggest. Indeed, income distribution improved in the region relative to the trend in many industrialized countries, though not necessarily as a result of the Washington Consensus policies. Across Latin America, income growth of the bottom 20 percent and the middle class was significantly higher than that of the wealthiest 20 percent, both in the 1990s and afterward (Table 3). In Brazil, Chile, and Mexico, redistribution was as important as growth for the poorest 20 percent.

Income was not the only area of welfare progress. Working hours have declined in the region, in line with the standard relation between hours and income. In Mexico, working hours remain somewhat above the norm, whereas in Brazil, they are below. Life expectancy in the region increased on par with the world, with Mexico lagging in the last decade.

The Washington Consensus in Latin America and its Aftermath

Since the inception of the Washington Consensus in the late 1980s and early 1990s, Latin American economies have become significantly more stable, with less frequent instances of balance-of-payments crises, high or hyperinflation, and unsustainable debt dynamics. However, it is fair to conclude that Latin American economic performance has been disappointing over the last 30 years, both compared with other regions and emerging economies and relative to expectations at the beginning of the 1990s. Even success cases, like Chile, are currently under scrutiny. Growth performance improved relative to the lost decade of the 1980s, but forecasts and targets made over the years, including by the IMF, show substantial economic underperformance.

How much of this outcome can be attributed to—or occurred despite—the Washington Consensus reforms is still under debate. There is also controversy as to whether the Washington Consensus principles were actually implemented. No economy took all the recommendations fully, and most of the countries were either slow or not persistent in adopting them. But a substantial share of the countries in Latin America did adopt at least a reasonable subset of the initial recommendations. Over the years, many countries increasingly took on board fiscal responsibility (albeit imperfectly), inflation control, floating exchange rates, market-determined interest rates, privatization, trade openness, and spending on education and health.

Certainly, some important aspects of Washington Consensus policies have been successfully implemented and provide important building blocks for a successful development strategy and model. For example, trade openness became widely shared in countries like Chile, Colombia, Mexico, and Peru. In Mexico in 1993, there were intense demonstrations against the North America Free Trade Agreement, and left-wing parties opposed it in the Mexican Senate. In contrast, the Mexican Senate's approval of the new United States-Mexico-Canada Agreement

Table 3

Per Capita Income by Income Share in 1990, 2004, and 2018*(at purchasing power parity exchange rates, in 2018 US dollars and percent)*

Country or region and income segment	Per capita income (%)			Annual growth rate (%)		Due to redistribution (%)	
	1990	2003	2018	1990–2003	2003–2018	1990–2003	2003–2018
<i>Brazil</i>							
Average	12,071	13,116	16,146	0.6	1.4	—	—
Poorest 20%	1,388	1,705	2,503	1.6	2.6	0.9	1.2
Middle 60%	6,659	7,782	10,387	1.2	1.9	0.6	0.5
Richest 20%	38,991	40,528	47,066	0.3	1.0	–0.3	–0.4
<i>Chile</i>							
Average	10,163	17,182	25,700	4.1	2.7	—	—
Poorest 20%	1,728	3,436	7,453	5.4	5.3	1.3	2.5
Middle 60%	5,776	11,226	18,376	5.2	3.3	1.1	0.6
Richest 20%	31,759	48,798	65,922	3.4	2.0	–0.7	–0.7
<i>Mexico</i>							
Average	14,620	17,314	20,616	1.3	1.2	—	—
Poorest 20%	2,632	3,636	5,566	2.5	2.9	1.2	1.7
Middle 60%	9,064	11,629	14,741	1.9	1.6	0.6	0.4
Richest 20%	43,275	48,047	53,293	0.8	0.7	–0.5	–0.5
<i>Average of:</i>							
Latin America	11,280	12,725	16,224	0.9	1.6	—	—
Emerging and developing	5,137	6,701	12,510	2.1	4.2	—	—
Advanced economies	34,326	43,124	51,776	1.8	1.2	—	—

Source: Authors' estimations based on International Monetary Fund World Economy Database and World Bank World Development Indicators.

Note: We calculate the per capita GDP for each subgroup with income distribution data and the redistribution effect by subtracting the (compounded) average per capita GDP growth.

(USMCA) in 2019 was almost unanimous, with barely any demonstrations. In Chile, negative sentiment to the Trans-Pacific Partnership relates more to the polarization of anti-American (and pro-China) groups than to a push for closing the economy. Brazil is the main exception to this movement toward greater trade openness, and its economy remains closed.

In addition, despite the current fiscal challenges in Brazil and other countries, there is general agreement in Latin America on the importance of maintaining fiscal discipline and keeping control of government indebtedness to avoid macroeconomic instability. Even in Mexico, now governed for the first time by a left-wing party, President López Obrador's commitment has been strong: "We are going to maintain no fiscal deficit, no matter what."⁴ Across Latin America there are now

⁴"Vamos a mantenernos sin déficit fiscal pase lo que pase, asegura AMLO en convención bancaria," El CEO, March 13, 2020 (our translation). See <https://elceo.com/economia/vamos-a-mantenernos-sin-deficit-fiscal-amlo-convencion-bancaria/>.

fiscal policy rules, fiscal responsibility laws, independent fiscal councils, and explicit mechanisms for evaluating policies both before and after they are enacted. A number of regulatory and supervisory institutions have also been strengthened over the last three decades. One of the factors driving institutional modernization is the region's increasing integration in multilateral organizations: the OECD incorporated Mexico as a full member in 1994, Chile in 2010, and recently Colombia, while Brazil is the most active OECD "key partner" (as a nonmember). Current fiscal policy discussions in the region are centered on the right level of debt and deficits and the need for countercyclical fiscal policy, though COVID-19 will leave countries with severe budgetary challenges.

In other areas, the legacy of the Washington Consensus is being questioned. Privatization and the role of the state remains a divisive issue in some countries. The speed of privatizations in the 1990s came at the sacrifice of putting in place an adequate regulatory and supervisory scheme to allow competition in the newly privatized sectors. In Mexico, the current government has blocked private investment in the energy sector. In Chile, new privatizations are out of the question. There is also debate about deregulation, as some consider the government's regulatory capacity to be limited and fear new monopolistic powers.

In addition, the Washington Consensus policies were delineated during a time of debt crisis and severe macroeconomic stress and thus fell short of a full development strategy. To be sure, countries were able to move ahead on other policy agendas, including strengthening institutions (for example, central banks), pension and savings reforms, and social policies, such as conditional transfers for the most vulnerable. However, despite the reduction in poverty and some improvement in income distribution, the advances in social areas in the last decades are considered insufficient, and there is a perception that more is urgently needed. Targeted government spending in education and health has been more noticeable since the 2000s, but there is still a long way to go in terms of quality and fair access.

Several important areas of public concern, which were not part of the Washington Consensus (and not even considered major issues at the time), are becoming critical: i) public security and the fight against organized crime, usually related to drugs (Latin America and the Caribbean represents 8 percent of the world population, but has more than 40 percent of world homicides); ii) access to justice, as citizens feel that elites receive preferential treatment; iii) corruption, which has deteriorated significantly in recent years and has had a heavy toll on the credibility and legitimacy of politicians; and iv) environmental policies, particularly in Brazil, with the debate on conservation of the Amazon rain forest, and more recently in Mexico, with the debate on green versus traditional energy.

The Washington Consensus seems likely to remain a subject of controversy. On one side, it bears the burden of a number of negative assessments (for example, Rodrik 2006). Stiglitz (2008, p. 41) provides a summary of the critical view: "There is no consensus except that the Washington Consensus did not provide the answer." On the other side, Grier and Grier (2020) argue that the alternatives to the Washington

Consensus have performed even worse. Easterly (2019) concludes that the evidence “seems most consistent with a position in between the poles of complete dismissal or vindication of the Washington Consensus” (p. 35).

In current public policy debates in Latin America, controversy over “neoliberalism” dwarfs interest in the Washington Consensus. Neoliberalism is the straw man most commonly held up as responsible for Latin America’s economic problems. According to our calculations using the Google Books Ngram Viewer, books published in 2019 in Spanish had 70 times more references to “neoliberalism” than to the “Washington Consensus.”

But neoliberalism is not a clearly defined concept in economics. In public discussion, neoliberalism is narrowly associated with a *laissez-faire* view (à la Hayek) and perhaps also with extreme monetarism (à la Friedman), and it is sometimes equated with rather orthodox and pro-market reforms. Neoliberalism has also been identified with policies that disregard some relevant aspects of development, such as inequality and poverty, and neglect any role for the state. More importantly for the issues discussed here, critics have sometimes caricatured the Washington Consensus as a neoliberal manifesto. As described by Thorsen (2010, p. 3), neoliberalism has become “a generic term of deprecation to describe almost any economic and political development deemed undesirable.” The Washington Consensus should not be mechanically associated with this neoliberal straw man. As shown in this paper, the Washington Consensus was a list of recommendations that was partially adopted with mixed results, some of which were satisfactory and others clearly not.

In our view, without some subset of the Washington Consensus policies, it would have been difficult, if not impossible, to achieve macroeconomic stability and to recover access to foreign financing in the late 1980s and early 1990s. The main risk in Latin America at present is that economic populism will gain ground and policymakers will discard the Washington Consensus policies altogether. That would be a mistake. The reality is that many of the Washington Consensus policies are needed as building blocks for a new agenda. Whatever the merits are of the Washington Consensus policy agenda in the last three decades, Latin America in the 2020s faces a larger set of policy challenges, including social, income distribution, education, security, rule of law, and environmental issues.

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