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Incompleteness of Post-Washington Consensus: A Critique of Macro-economic and Institutional Reforms

Héctor Cuadra Montiel*

The processes associated with the inevitability of globalization are patently not market-driven; there is a social dimension to the so-called economic compulsion. Therefore, neither the globalization discourse nor the general equilibrium model acknowledges the institutional differences and social determinants of markets, because they are presented as homogenous and convergent. The inadequacy of the first generation of economic reforms associated with the Washington Consensus and also of the institutional emphasis of the second generation of reforms of the post-Washington Consensus highlighted a missing social and political dimension. Though their emphases vary and complement each other, no set of reforms acknowledges the vital political character of the situated agents in context, as both generations of reforms are oriented towards the harmonization of policies.

While attempting a discussion on the limits of the Washington and post-Washington Consensus this article places emphasis on the situated agent in context, in order to stress the importance of the actors in the social, political and economic processes, as they dialectically influence or are being influenced by, the conditions which surround them. In addition to the material circumstances, the role of ideas is also stressed within specific historical moments and geographical limits. Being able to trace different trajectories of reforms, which, in turn, are concurrent with tendencies and counter-tendencies at play, has proved beneficial for stressing the socially embedded dynamics, where power interactions contribute towards the contingency of open ended systems which do not follow deterministic law-like regularities (Hay 1996, 2002; Jessop 1990). The philosophically consistent, theoretically informed and empirically grounded claims clearly allow us to highlight the importance of relationships which are not amenable to direct observation. This article

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aims to analyse the strategically selective international context with both material and ideational elements in it which has influenced, but never determined, the pace, scope and depth of contemporary social, economic and political transformation in some Latin American countries. Clearly, the international contexts and dimensions cannot be ignored, and need to be carefully scrutinized.

As a way of coping with the uncertainty of the social processes of change, there has been an emphasis on institutional reforms to complement the economic restructuring of developing countries. Yet, the deficiency of the post-Washington Consensus lies in its inattentiveness to the pivotal role played by actors, its recommending a deterministic notion of convergence and its assumption that abstract economic equilibrium will deliver growth with equity. It is difficult to believe that this will happen, as the second generation of reforms assumes that if equitable growth has not been reached, it is because of the incompleteness of the undertaken adjustment, rather than ill advice.

Globalization and its Market Drive Delusion

Contrary to claims, globalization is never a structured, ahistorical, single condition against which no alternatives can be offered (Hay and Marsh 2000; Held et al. 1999; Ohmae 1990, 1996; Strange 1994, 1996). Regarding this presumption of inevitability, Watson attempts to suggest why the political discourse of globalization is often presented as an economically driven homogenizing force. He focuses on its roots in orthodox neo-classical economic theory. According to him, the general equilibrium model can be considered as a precursor of the globalizing assumption that markets are unaffected by institutional differences and social determinants, as markets are closely linked across time and space (Watson 2003). Without realizing that the assumptions of such analytical models are unrealistic, and the fact that equilibrium is only a property achieved within the model, it has been used in an ideological fashion, prescribing political and economic courses of action. Economic jargon and technicalities of the model aside, the reconstruction of a pure exchange economy under conditions of perfect competition is invoked in simplistic and misleading portraits of globalization, establishing popular frameworks of reference which have spread beyond academia (ibid.).

The problem with the inapplicability of the general equilibrium model is its mismatch with reality, as it is with most of the mathematically oriented orthodox neo-classical models which are based on abstract assumptions, positivist ontology and deductivist inferences (Lawson 1997, 2003). Suffice it to say that such positivist ontology is prone to deterministic analysis in social science because of the impossibility of conducting closed system experimentation. Unlike natural science, the social sciences are characterized by their lack of experimental control and the inexactness of their findings. Equally problematical is the fact that deductivism makes inferences from the general to the particular, formulating laws in terms of

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constant conjectures which are simply considered to be universally valid. Moreover, another critical issue with the equilibrium models in particular, and mathematical modelling in general, is that they are incompatible with a focus on the intention of actors. Not only is this issue not considered but the assumption that there is only one rational course of action and, therefore, only one 'rational choice', denies the capability of any agent to decide on an alternative course of action. By not according importance to the intention of actors, indeterminacy is taken out of the processes, but this in turn is the only mechanism which guarantees that the conditions of equilibrium are not violated (Lawson 1997, 2003).

Following Polanyi, I argue that economic activities form a part of broader social relations, and that they are not reducible to exchange transactions. Production and distribution are also key components of economic processes (Polanyi 1957). Furthermore, it is also stressed that the artificial commodification of labour, money, land and knowledge, provides a context which is biased toward certain political outcomes. This commodification has shaped many contemporary economic formulations, namely, the idea that money should be supplied by self-adjusting mechanisms, the creation of labour markets, and the promotion of free trade.[1] Such economic delusion has been forcefully defended by orthodox neo-classical economists, who, by emphasizing market exchanges as dominant transactional modes, have paid little attention to issues of production and redistribution.[2]

Because all economic activities have a social context, they are nothing but different forms of actions which are socially situated. Therefore, institutions of all kinds are basically social constructions (Granovetter 1985, 1992; Granovetter and Swedberg 1992; Swedberg 1991, 1994). Viewed from this ideational angle, market exchanges can also be considered as social constructions which tend to reproduce the idea originally suggested by Adam Smith that it is the propensity of man 'to barter, truck and exchange one thing for another' (Smelser and Swedberg 1994; Swedberg 1994). Despite the absence of the profit motive those assumptions have laid the foundations for contemporary emphasis on exchange relations. Orthodox neo-classical economists have consistently argued that these relations are pre-existing and, therefore, are not open to challenge. It is such assumptions of the propensity to exchange that feed the delusion that globalization is merely market driven. It is also one which has materially shaped the world we live in to a considerable extent.

[1] Polanyi does not mention knowledge as another fictitious commodity. For him, commodification takes place when man and nature are considered to be available for sale, and when the operation of markets for land aims to extract rent from it. Likewise, the market for labour produces profits in the form of wages, and interest is considered the gain which can be obtained from money markets (Polanyi 1957).

[2] Benefiting from an anthropological perspective, Polanyi argues that there are important ways in which an economy has historically been organized, such as reciprocity, redistribution, exchange and householding. All of these organizing principles of behaviour follow social arrangements and make use of different patterns such as centricity and symmetry, autarchy and market. For some ancient

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Multilateralism and Regionalism Trends

Nowhere are the assumptions about exchange relations being the driving force of social process more evident than in the works of orthodox neo-classical economists on regional or preferential trade areas. Since Viner wrote about trade diversion and trade creation in the 1950s, the debate has evolved through different phases (Bhagwati 1999; Bhagwati et al. 1998).

Contemporary orientation towards convergence criteria and its push for harmonization represents a contrasting approach to the Calvo Doctrine preferred by Latin Americans some decades ago.[3] Yet, regulatory frameworks and doctrines aside, it is evident that foreign direct investment (FDI) is highly concentrated amongst the most developed economies of the world, which cluster in three main regions. They are Western Europe, particularly European Union members, North America, especially the United States, and East Asia, mainly Japan and China. Even though there has been an increase in the volume, value and frequency of FDI outflows and inflows among specific developing economies, the biggest share remains clearly concentrated in the triad (Mansfield and Milner 1997, 1999).

The delusion of market inevitability is manifested in various forms. In keeping with the underlying assumption that exchange relations drive social processes, exponents of neo-classical orthodoxy have discussed whether regional or preferential trade agreements constitute building blocks or stumbling blocks in the creation of a multilateral trade order. Universal, free and open trade is meant to be the ultimate goal, not only for governments, but also for international society. In strictly normative terms, the proliferation of trade agreements since the 1980s is perceived to be inherently discriminatory, as it is feared that they detract from

societies, the reciprocal and redistributive practices in particular were organized to guarantee order in production and distribution (Polanyi 1992, 1996).

[3] This was named after an Argentinean diplomat, who argued that jurisdiction in international investment disputes lies with the country in which the investment is located. Thus, the investor has no recourse but to use the local courts and remedies, and must waive diplomatic protection from their home countries. Formulated in the mid-nineteenth century, a period of time in which the relatively newly independent Latin American countries constantly faced threats, military interventions and wars against foreign states, it aimed to provide a legal shield against extra-territorial regulations from foreign countries which tended to oversee the host national laws and rules. The Calvo Doctrine would prohibit the use of diplomatic intervention as a method of enforcing private claims before local remedies have been exhausted. Clauses of the doctrine can be found in constitutions, treaties, statutes and contracts, as they are used mainly in concession contracts; they attempted to give local courts final jurisdiction and to obviate any appeals to diplomatic intervention.

Narrower in scope than the Calvo Doctrine, from which it grew, the Drago Doctrine, formulated by another Argentinean, maintained that no public debt should be collected from a sovereign state by armed forces or through the occupation of its territory by a foreign country.

Following those doctrines, some Latin American countries delayed entering international investment agreements until the 1980s. However, since then they have accepted international arbitration to resolve disputes between investors and governments.

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true liberalization and, therefore, fragment the world trading system (Bhagwati and Panagariya 1999; Panagariya 1999). Yet, it is possible to see that such an outcome is very unlikely. It is necessary to take into consideration that different levels of negotiation, i.e., regional and multilateral ones, are not, strictly speaking, opposed to each other as the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS) make evident. For the Doha Round there is one important issue to bear in mind. The Most Favoured Nation (MFN) treatment must not be confused with universalism, as it applies to members only. Thus, inclusive as it is, it falls short of being universal. Regarding the trade of goods, the exception to the MFN clause is article XXIV of GATT, which entails permission to set customs unions and free trade areas. Even if it provides that duties and other regulations are not to be increased or made more restrictive than the ones previously in effect, it has been a controversial subject. Furthermore, Part IV, added in the mid-1960s to benefit mainly developing countries, along with the enabling clause of the late 1970s, has also been criticized on the ground of inconsistency and overlap which violates the letter and spirit of the accord (Panagariya 1999). In addition to goods, GATS article V requires countries to refrain from raising the overall level of barriers beyond what existed prior to the agreement. It also provides for arbitration between parties (Bhagwati 1999; Panagariya 1999; Serra et al. 1997).

Economic exchanges, typically exemplified by trade, are regarded as forces which, if open, deliver growth. Therefore, there is supposed to be a great incentive for most economies of the world to completely open their markets, although there is no conclusive evidence of this (Rodrik 1999). Furthermore, *ceteris paribus* it is argued that such openings work as an integrating force bringing economies together. In this respect, it is sometimes associated with the idea of integration. Nevertheless, integration is not merely an economically driven phenomenon. With the benefit of hindsight, it is not difficult to observe that, in historical terms, free trade has been the exception rather than the rule. Protectionism has been a pervasive feature of the world economy, where the champions of liberalism abroad restrict access to some of their specific and valuable markets and niches (Gilpin 2001).

Along with market concerns, there have also been experiences of policy driven regional integration with various mixes of motives in the European Union, the North America Free Trade Agreement and the Asia Pacific Economic Cooperation, etc. Limiting the explanation of contemporary regionalism to exchange relations can be quite misleading and provides a partial and deterministic picture. For, economic activities must not be considered in isolation, only leading the social processes. On the contrary, economic activities are part of these processes, because they are subsumed in a broader social context. Although they are crucially important factors to take into account, this is not the same thing as saying that we can reduce our analysis of social and political processes to purely economic terms, as we run the risk of falling into deterministic accounts.

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Amongst the extra-economic reasons presented by orthodox neo-classical economists for developing economies to pursue international trade and investment agreements, some of the political issues highlighted include security, bargaining power, cooperation and 'lock in' effects (World Bank 2000a). In most of the cases the promotion of less intensive regulatory frameworks for economic activities, converting non-tariff barriers into diminishing tariffs, liberalizing trade and investment flows, lowering inflation rates and implementing the privatization initiatives of government owned enterprises has represented an alignment with economic orthodoxy. Furthermore, those economic adjustments are now presented as incomplete and in need of being matched with institutional reforms.

The Political Contingency of Regional Social Processes

The assumption that the openness of an economy is correlated to its rate of growth is not supported by any conclusive evidence. Not only is there a weak co-relation between trade barrier levels and long-term growth, but it is also contingent on some complementary policies and institutions (Rodrik 1999). Moreover, the concern for equity is non-existent and the systematic neglect of the role and capabilities of agencies renders neo-classical economic orthodoxy controversial and unrealistic.

Even though it is important to highlight the significance of investment and macro-economic policies, the claim that the more open an economy is the greater the rates of growth, is contrary to the empirical evidence of the lost decade of economic growth in Latin America and some other regions of the world. It is no secret that such inconsistencies have systematically been ignored by neo-classical economists. In addition, the series of economic and financial crises which have occurred since the 1980s have been seized as opportunites to restructure economies. In particular, they have been the premise for the introduction of a new 'free market' orientation, as defended originally by the Washington Consensus and, currently, by the post-Washington Consensus. The controversy arises because in many cases, the imposition or induction of detailed economic prescriptions on legitimate governments has gone beyond theoretical consistency or empirical evidence. However, there does seem to be a stronger link between an economy with high rates of economic growth and the ability to attract trade and flows of FDI (ibid.).

Nonetheless, to leave aside issues of governance and accountability by privileging alleged market imperatives is problematic and irresponsible. A key deficiency of the former structural adjustment programmes, which themselves are externally induced and vertically implemented from the top of society to the bottom, lies in the failure to give due consideration to the participation of social groups. Within a democratic decision-making process, the decision to submit to external disciplines runs the risk of being counter-productive, especially if unsatisfied domestic constituencies and demands are relegated in order to meet other demands or objectives. Subjecting economies to an imposed market discipline, which constrains without

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determining the orientation of public policies, raises problems of democratic governance, because financial markets and actors are empowered over other social constituencies (Rodrik 1999). Needless to say, such a course of action is unaccountable, therefore undemocratic and unacceptable, both in terms of economic efficiency and societal outcomes. Then, a former uncritical acceptance of neo-classical economic axioms is transformed into a domestic self-induced political priority. Since openness guarantees neither growth nor equity, the orientation of economic policies is clearly a political decision, because markets are subsumed in larger social and political systems.

Without undermining the importance of economic activities and exchanges, it is clear that they are not the only factors which explain the second wave of regional and preferential agreements. For regionalism, geographical proximity and contiguity are quite as important as the cohesion of the region. The latter can be understood in historical, social, economic, political, organizational and even military terms. Since the limits of a region do not necessarily need to coincide with national boundaries, their multidimensional character is something which must not be overlooked (Fawcett and Hurrell 1995; Mansfield and Milner 1997, 1999). As with globalization, regionalism is a process always in the making, in which tendencies and counter-tendencies interact, led by situated agents in context. Rather than being contradictory to international, global, transnational or national trends, regionalism is symbiotic and it coexists with other dynamic and open ended processes, such as local agendas, at the same time as it contributes towards their never ending modification. Therefore, regionalism is never an organizing principle for any system, because it constitutes only one of the many pillars supporting an evolving international order.

Regionalism has been a process originated from within society. It is a process from within and from below the particular regions themselves; indeed it is much more so than has been acknowledged hitherto. It has allowed a significant role for agencies to engage and develop their own varieties of social, political, military, regulatory and economic environments as well as trends and counter-trends. One of the reasons for such dynamism lies in the comprehensive multidimensional processes by which social, political, economic and cultural—formal and informal—networking has developed. They are, in many important respects, not necessarily following their own governments. Consider the example of migration trends; despite government efforts to halt the flow of migrants, to those who aspire for a higher living standard these trends are stronger and more numerous than the official disincentives to curb migration.

Sadly, despite discursive and marketing strategies, a comprehensive approach attentive to specific social and political conditions is not the sort which is promoted by international organizations. Bearing in mind the leverage which these organizations have, the recommendations they make, the goals they aim for, the methods they use and the orientation of their policies, in a number of cases they tend to

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follow doctrinaire mandates, rather than tailoring appropriate suggestions. The controversy surrounding the second generation of economic reforms for several countries, which are either currently undergoing or have undergone structural adjustment programmes in the past, is of relevance. Because they aim to emphasize the role of institutions as complementary tools for market mechanisms, they leave untouched key unrealistic and inconsistent assumptions and methods. Paying specific attention to the case of the World Bank, the next section analyses and illustrates the ostensible friendliness of 'self-adjusting' and 'self-regulating' markets alongside institutional frameworks, as they have been identified as exemplifying the influence of the post-Washington Consensus.

Adding Friendship Axioms: Markets in Need of Institutional Complements

The World Bank, as one of the most important international organizations engaged in helping member countries reach higher levels of development, has been heavily criticized for the inadequacy of its recommendations and the 'one size fits all' prescriptions for its member countries. The 'market friendly' approach which this organization promotes is by no means unproblematic. Consider, for instance, the recommended strategies for matching the state's role with its capabilities, on the one hand, and the advice to raise the state's capabilities by reinvigorating public institutions on the other. We are told that the main task of the state is to find ways to narrow the gaps between the demands placed by its different constituencies and its ability to undertake and promote efficient collective action (World Bank 1997). Adopting a Polanyian perspective, it can be said that the World Bank's recommended strategy to match the state's role with its capabilities is oriented towards commodification processes. It induces certain specific courses of action for the governments to operate as complements of markets, as it explicitly gives a recipe for delimiting actions, specifying omissions and advising on strategies. For the World Bank, the top priorities for developing economies include achieving and maintaining macro-economic stability, the attraction of private investment, economic consistency among governmental policies, and the aim on investing in infrastructure and social services. Furthermore, it recommends establishing a foundation of law and protecting vulnerable sectors of society and the environment. In so doing, it not only gives economic advice but, most importantly, it also adds a more explicit political dimension to its recommendations.[4]

[4] In order to reach the aim of raising the state's capacity to undertake and deliver efficient collective action by reinvigorating public institutions, the World Bank believes that abiding by the rule of law is a necessary, but not a sufficient, condition for reaching the goal of sustainable development. The provision of openness, transparency and incentives to follow the rules and keep arbitrary action in check aims to avoid the 'lawlessness syndrome'. The recommended reforms for the macro-economic policies focus on exchange rates, fiscal and trade policies, whereas the reforms in the institutional structures pay attention to regulation, social services, finances and infrastructure.

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Even though the World Bank pays attention to the role and potential of human agency, there seems to be more emphasis on channelling or orientating the actors' capabilities towards economic imperatives. In this view, the inculcation of market oriented rationality habits could be considered as a core element of the unitary actor profile which is attentive to the institutional framework, on the one hand, but also of the state's set of strategies, on the other. Since economic rationality needs to be constructed, as it is not naturally given, the induced performances of the rational unitary actor legitimize the construction of positivist philosophical positions and the stance of neo-classical economic orthodoxy. Institutional reforms, such as the ones undertaken for the implementation of structural and sectoral economic adjustment programmes, are constructed as vital components of the context in which agencies are situated. Furthermore, the modification in the role of the state aims to reinforce the creation of economic rationality, inducing the making of 'homo economicus' within an institutional environment (Williams 1999).

In addition to the dissemination of the World Bank's structural view of the state, it places a heavy emphasis on the scope and importance of institutional reforms. From this perspective, it comes as no surprise that the set of formal and informal rules in a society which shape human interaction are crucial for economic performance (North 1990). According to the World Bank, the state should match its institutional capabilities and actions, if it is to provide a consistent implementation of policies. Moreover, it further contends that institutions and governments can play a role in ameliorating and narrowing technical knowledge gaps and information asymmetries, which is crucial for improving development and standards of living (World Bank 1998). Since it is acknowledged that institutions matter as one of the core elements of an inclusive social process which is responsive to changing circumstances, they are crucial for various tasks such as governance, negotiation, coordination and regulation (World Bank 1999). Highlighting not

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The message that the state should act as a 'partner, catalyst and facilitator', at the same time that it needs to reinvigorate the public institutions which provide the foundations of the markets, makes the World Bank adopt a structural perspective on the fluid dynamic of the processes of social change. Since it is contended that economic transactions and activities do not take place in static conditions, the social and political embeddedness of markets bring uneasiness, indeterminacy and contingency to the processes. At this point it is important to stress that the capacity for change lies in the way in which policies are implemented, because agencies have a role to play. The denial of their power to embark on and undertake processes of social change, undoubtedly, promotes, either openly or covertly, inaction, passive behaviour, submission and acceptance of the status quo. Although a macro-economic stable environment might be important in the supposed justification for the attraction of trade and investment flows, social and political particularities need to be taken into account as well. This is not the same thing as saying that the context in which market players are situated determines the final outcome of each transaction. Rather, the point being stressed is that collective and individual actors alike have the potential to influence, promote and achieve changes.

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only policies, but also processes, institutions are perceived by World Bank officials to be fundamental prerequisites for the achievement of sustainable economic development (World Bank 2001).[5]

However, important as these arguments are, they leave out one important aspect. They fail to recognize that institutions themselves cannot guarantee any specific outcome at all. None considers that the role played by agencies is crucial for the achievement of economic, political and social goals. Institutions are never a sufficient condition for change, as they need to be processed endogenously by the situated agents in context. Furthermore, whatever the character of social change, in its economic, political and cultural dimensions, they must become part of the actors, either as individual or collective 'participation and ownership' (Stiglitz 1998a, 1998b). Only by endogenously digesting, internally incorporating and reproducing the dynamics of change can actors contribute to the ongoing tendencies and counter-tendencies featured in all social processes. Adopting a Foucaultian perspective on power it can be argued that power is immanent in all social interactions and, also, that the capability for transformation is not structurally determined by institutional features (Foucault 1976, 1977, 1979). Where a qualitative social, political or economic transformation is required, the political character of power as a core factor of change needs to be taken into account.

Influential and important as international organizations are, their opinions are formulated with the assumption that the existence of a profit rationale is sufficient for all social activities. Even though it is no doubt important for private firms, when it comes to the public sector, concerns other than economic objectives are relevant. According to Polanyi, the expansion of markets and economic activities creates the need for a guarantee and expansion of social protection from the markets (1957, 1992, 1996). While on the other hand, for Schumpeter, the cyclical fluctuations which foster the continual emergence of new economic and social forms are never exclusively economic (1934, 1954, 1996). Unlike labour and land which are naturally given, money and knowledge are socially produced, but have also been commodified. In so doing, they are incorporated into a discursively induced trend modelled on asocial and ahistorical assumptions and axioms.

[5] The organizational leverage which international organizations display in the promotion of their 'market friendly' and institutional agenda cannot be ignored by developing countries. Consider, for instance, the World Bank's recommendations for building effective institutions. They include the advice to render complementary existing institutions, human capabilities and technologies. It is also recommended that successful innovation can help institutions work, even if some innovation efforts may not be successful. Additionally, flows of open information and trade are regarded as fundamental for connecting market players, while the promotion of competition among jurisdictions and diverse actors such as firms and individuals is highly ranked as well. The picture we get from this is that institutional design is relevant for firms, government and society, and being a channel of information about market conditions, goods and participants is an important function for the state to perform. Another relevant issue is the definition and enforcement of property rights and contracts.

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With the benefit of hindsight after various decades of monitoring and evaluating a range of different experiences associated with the processes of economic restructuring, the World Bank has attempted to incorporate political and social insights into its analysis, as the last series of its reports shows. For instance, without downgrading the importance of 'economic fundamentals', the inclusion of social and political insights for attacking poverty emphasize the promotion of economic opportunities, the facilitation of empowerment and the enhancing of security for the worst-off. This is an issue which should not be postponed any longer. Nevertheless, the World Bank affirms the role of institutions and their interactions with some other social and political factors, such as their power to help in reducing the vulnerability, lack of voice, power and representation that feature in poverty scenarios (World Bank 2001). The World Bank, echoing the claims of many neo-classical economists, has stressed the 'creative' side and potentiality of institutions as helpful devices for achieving stronger rates of growth and, supposedly, of development as well. However, little attention has been paid to the 'destructive' side of institutions if they are poorly implemented and inadequately organized. Weak institutions are not neutral with respect to their surrounding social and political contexts, as they tend to favour specific sectors and constituencies. Furthermore, the repetition of poor institutional practices not only hurts people who do not benefit from any privilege, but also due to its path-dependant character, it increases the degree of difficulty which challengers encounter when they attempt to break the inertial and harmful formal and informal rules and practices. In an attempt to break off from such inertia, the World Bank is publicly committed to work for the achievement of the mutually reinforcing millennium development goals (MDGs), viz. promotion of gender equality, primary and secondary school enrolment and health services, along with the reduction of poverty, infant and maternal mortality rates and environmental degradation, by 2015 (ibid.). Nonetheless, its Bretton Woods sibling, the International Monetary Fund, sticks more firmly to 'self-adjusting' and 'self-regulating' assumptions in its work.

However, it would be unfair not to recognize that there has been an evolutionary lesson with regard to development processes for the World Bank. Originally, the emphasis was put more on growth, whereas nowadays equity concerns have broadened the agenda. The emphasis on institutions is now reflected on the post-Washington Consensus which was built upon them. It is precisely to the institutional perspective presented and promoted by the Bretton Woods organizations and the Washington Consensus that I now turn in the next section of this article, where I engage in an exploration of the first generation and second generation of economic reforms in Latin America, as perceived and promoted in Washington.

Inadequacy of Macro-economic and Institutional Reforms

The economic reforms which have been implemented in Latin America since the early 1980s have been discursively constructed as a response to the international

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debt crisis. The international debt problems were regarded by neo-classical economists as mainly insolvency difficulties. Therefore, their peers working within the Bretton Woods organizations pushed for structural adjustment programmes where economies were perceived to have failed, while pursuing import substitution industrialization programmes. Since major banks in the United States were mainly affected by the insolvency of some Latin American economies, finding themselves unable to redeem their international debt, the Federal Reserve applied pressure to prevent damage to the US banking system and to prevent the crisis from spilling over to other debtors. Using a case by case approach, the pragmatic renegotiation of debt rescheduling was followed by the implementation of different strategies such as the Brady and Baker plans and the modification of the International Monetary Fund (IMF) conditionality. The former, for instance, focused mainly on structural adjustment, placing particular emphasis on stringent reforms aiming to achieve balance of payments adjustment. IMF conditionality started to expand from macroeconomic concerns to agendas which came to be known as the Washington Consensus and the second generation of economic reforms.

Even though the promotion of prosperity is considered to be the main goal of the IMF, by confining itself to neo-classical economic models which tend to focus solely on observed factors, its performance has fallen short of its goals and its modus operandi remains controversial. It has been argued that political will and trust from IMF's members are key factors in the selection of loan candidates, as well as in assessing their performance (Vreeland 2003). In some cases, reaching an economic agreement with the IMF can provide a government with an external justification for imposing domestic economic reforms and for shifting the blame to the Fund. In this way, unpopular policies are tied to external conditionality, increasing degrees of leverage and raising the costs for national constituencies of rejecting them. Since the responsibility for the implementation of the economic programmes lies with a government which reaches an agreement with the IMF, there is always room for manoeuvre to decide what policies to adopt, with what severity and when (ibid.). Thus, the role of agency remains crucial, despite discursive allegations to the contrary.

The IMF programmes discourage growth, worsen inequity and hold a mixed record on the promotion of stability. The implementation of their agreements by a number of countries shows patterns of deceleration of economic growth and increasingly inequitable redistributions of income, benefiting the better-off at the expense of the worse-off (ibid. 2003). Typically, stabilization and economic adjustment programmes, as designed by the IMF, have historically tied loans to different sets of conditionality. Furthermore, the fact that the IMF only reaches agreements with Ministries of Finance in member countries bypasses the approval of some other branches of the government, as no ratification is required exante (ibid.). Yet, in agreements with the IMF, the required policy changes are made expost and the resources which are lent to the member countries are made available

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over the course of the agreement, but only if the observed policy changes are considered to be sufficient and satisfactory. The pragmatism of these mechanisms means that ratification or the approval of other branches of the government, if required for specific policy changes laid out in the agreement, need be of no concern to the IMF. It is only the executive of the country which needs to deal with them (Vreeland 2003).

The Washington Consensus has been associated with the ideological agenda of neo-liberalism for which economists such as Friedman and von Hayek were noted, along with the economic programmes implemented during the 1980s and associated with Prime Minister Thatcher in the United Kingdom and President Ronald Reagan in the United States. The label was originally intended to describe a set of economic policy reforms and instruments that reached a certain degree of agreement among officials at the United States Congress, international financial institutions such as the IMF, the World Bank and the Inter-American Development Bank, economic agencies of the US government, the Federal Reserve and think tanks (Williamson 1990). However, the consensus was acknowledged as one for countries other than the United States to follow. The main goal of the Washington Consensus was the reactivation and promotion of economic growth in Latin America yet, precluding any concern for redistribution. Indeed, the policy instruments considered included: (*a*) the elimination of fiscal deficits; (*b*) the redirection of public expenditures towards primary education, health and infrastructure; (*c*) the broadening of the tax base; (*d*) positive but moderate interest rates; (*e*) the use of a competitive exchange rate to induce growth in non-traditional exports; (*f*) progressive replacement of qualitative trade restrictions by decreasing tariffs; (*g*) abolition of FDI barriers; (*h*) privatization of government enterprises; (*i*) deregulation for the entry of firms and competition, and; (*j*) provision of secure property rights (ibid.). The set of economic policies became guidelines for the governments of the region to implement.

In practice, some points such as financial liberalization were eagerly implemented, whereas others such as tax reforms fell short of the original aspirations.[6] Nevertheless, the overall results for the Latin American economies after years of implementation of economic restructuring are still highly disappointing even today. Not only have the desired rates of economic growth not been reached, but even

[6] The advice to free markets from 'financial repression' was supposed to work in economies with imperfect capital markets, by increasing the demand for money, which would help expand the monetary system (McKinnon 1973). Broad and general guidelines for the optimal order of economic liberalization were put into practice in the emerging markets during the final two decades of the last century (McKinnon 1991). Still, in some cases, the reckless implementation of policies led to failure and spirals of crisis. Nowadays, even enthusiastic advocates of the idea of liberalizing capital markets in developing economies from any 'financial repression', have subsequently recognized that prudential financial regulations should be observed for economies in the contemporary 'dollar standard game' (McKinnon 2002).

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negative rates have been delivered in some years since the 1980s. Although acknowledging that adverse circumstances, such as earthquakes and hurricanes, which are beyond any human control, had affected the region as a whole and some countries individually, the sustained growth promise still remained unfulfilled even for the better-off economies during their comparatively best periods. Moreover, an unintended consequence seems to have been the dramatically widening income distribution gap, which has made the region in general, and some countries in particular, quite polarized.

The original expectations of the ten points of the Washington Consensus were that capital inflows and export growth would promote the development of labour intensive sectors. As such expectations fell short in reality, poor institutional design was singled out as the main culprit. Following the language of the markets, there has been a growing demand for institutional reforms in Latin America and the Caribbean. As a response to trends of financial integration, stronger and better institutions are considered to be critical for macro-economic stability. Such an approach aims to reinforce and maintain the macro-economic adjustments which most countries in that region have gone through during recent decades. Accordingly, it is stated that institutions matter because they constitute a set of '...formal and informal rules and their enforcement mechanisms that shape the behaviour of individuals and organizations in society...' (Burki and Perry 1998: 11). Their relevance for the sake of stability is highlighted. Nonetheless, stability, in turn, is perceived as seriously threatened by technical and political challenges in the region, where information and enforcement problems are significant. The post-Washington Consensus is nothing but the promotion of legal, technical and political convergence, where the optimal scenario would be that laws, regulations, constitutions and contracts on the formal side would harmonize with informal practices based on trust, ethics, values and political norms. As a result, all these formal and informal institutions are supposed to determine the efficiency and existence of both markets and organizations. Regardless of their public or private character, they are expected to provide clear, widely known, coherent, universal, predictable, credible, properly and evenly enforced rules (ibid.). The recommendations do not stop there, however. Some guidelines even suggest empowering beneficiaries from institutional reforms and compensating losers even while building political support for prospective reforms and providing incentives to keep the reforms on track. Needless to say, such a grand vision of predictable certainty is extremely unrealistic, as it insists on deductivist modes of inference and positivist closed systems assumptions which do not match reality, as is argued throughout this article.

Orthodox neo-classical explanations for the poor economic results and benefits in the countries where the first generation of economic reforms was put into practice tend to focus on improper and incomplete implementation. From the same perspective, it is also argued that the original emphasis, mainly on economic growth,

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was too narrow and, therefore, needs to be complemented by completing the economic restructuring and by pursuing a second generation of institutional reforms. Along with such packages, the new agenda includes provisions to reduce the likelihood of crisis and social equity concerns (Kuczynski and Williamson 2003). Reforms which are expected to be completed include the deregulation of labour and product markets, further trade reforms and the privatization of state owned enterprises, reduction of the informal markets and access to developed markets via the World Trade Organization (WTO) as well as the proposed, albeit halted negotiation of the Free Trade Area of the Americas (FTAA). For this orthodox neoclassical view, building the institutional set of reforms includes the modernization of the political system, the civil service, the judiciary and the financial sector.

Even though one cannot argue that there has been a dramatic shift in the economic agenda, the current emphasis on institutions is presented as an attempt to broaden the narrow concern for economic growth. It is evident that equity was never a priority for the Washington Consensus (ibid.). Despite some acknowledgement of the importance of institutions to achieve growth and equity, it seems that the initiatives and proposals are not strong enough to achieve sustainable and equitable rates of growth without taking into account the social embeddedness of markets and economic transactions. Though it has one of the most unequal distributions of income and assets of the world, the objective of reducing poverty and improving equity without sacrificing growth in Latin America is now discussed in international organizations, government bodies and academia, as a new and overriding objective. For most of those economies, the 1980s and 1990s were clearly decades of economic restructuring and disappointing results, especially with regard to economic growth, poverty reduction, income distribution and social conditions. The challenge of building more visibly just societies via concrete economic instruments is one to which no small number of analysts channel their professional efforts.[7] Not only has it been acknowledged that poverty and inequality act as deterrents to growth, they also strengthen and reinforce undesirable patterns of polarization and misery. For the second generation of economic reforms, some of the institutional economic tools for social equity which are now promoted keep the emphasis on economic efficiency, such as maintaining fiscal discipline, lowering subsidies to rich people for higher education and reducing tax evasion. Additional concerns include keeping an eye on equity issues, such as more public spending on social safety nets, protecting workers' rights and tackling discrimination practices (Birdsall and de la Torre 2001).

Yet, issues that are beyond the reach of domestic economic and institutional reforms are trade barriers on commodities and manufactured goods from developing economies, as encountered in the biggest and more profitable markets of the

[7] cf. Birdsall and de la Torre 2001; Burki and Perry 1998; Kuczynski and Williamson 2003 and World Bank reports of the last few years among others.

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world. For instance, protectionism against textiles and agricultural imports in the United States and the European Union tend to aggravate patterns of poverty, reinforcing inequality in countries whose main exports cannot benefit from access to developed markets. Therefore, the reduction or preferably the elimination of support policies in the Organization for Economic Cooperation and Development (OECD) markets would shift production towards lower cost producers in the developing economies and would constitute a step towards a more equitable situation in these countries (Birdsall and de la Torre 2001). These demands are by no means new. They have been on innumerable negotiating tables and, even now, constitute an unresolved and, therefore, sensitive issue in trade talks between the United States and the European Union. Particularly sensitive in this respect have been subsidies and protectionism in sectors such as agriculture, steel and labour intensive services. It is no secret that market access is crucial for the outward orientation of economic practices and institutions in developing countries.

The problem is that if the institutional agenda and reforms are either poorly implemented or put into practice in a way which reinforces existing patterns favourable to inequality, it would make such goals unattainable. To put it concisely, the danger is that the aim of sustainable and equitable growth will not be achieved. Constant repetition of commodification practices can only lead to further commodification, no matter what the change in discourse and rhetoric is. If the economic practices, conditions and institutions are changed and oriented to serve more equitable purposes, then this could only be considered as a preliminary step. For instance, the implementation of economic strategies and the use of outwardly oriented economic policies have favoured polarization, delinking the domestic supply of inputs for exportable manufactured goods in contemporary Mexico and in some other Latin American countries. Moreover, since a handful of firms account for a significant share of the northbound and southbound flows of products, their overall impact on the labour market is quite low (Dussel Peters 1997, 2000). If the second generation of economic reforms is to be successful, a much stronger and more decisive emphasis on the domestic market must not be delayed, certainly if it is to deliver endogenous growth conditions. The risk of overemphasizing labour flexibility and inflation targeting is that this does not create as many high quality jobs as are needed, nor is it likely to do so in the future either. For, an insufficient number of new positions with negative wages in real terms cannot deliver sustainable endogenous equitable growth.

Conclusion

Since the processes associated with the inevitability of globalization are patently not market-driven, it is necessary to acknowledge the highly political character of allegedly economic compulsions. The conviction that the political discourse of

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globalization is an economically driven homogenizing force can also be found in the general equilibrium model. Neither the globalization discourse nor the general equilibrium model acknowledge the institutional differences and social determinants of markets, because they are presented as homogenous and convergent. Based on these unrealistic assumptions nevertheless, the closed system properties of the model are used to prescribe political and economic courses of action. The problem of the inapplicability of the mathematically oriented orthodox neo-classical models lies in the mismatch between theory and practice, non-realistic assumptions, positivist ontology and deductivist inferences. They tend to be asocial, ahistorical, reductionist and deterministic and at the same time they rule out the significance of actors to inject intentionality, indeterminacy and uncertainty to the processes.

The concentration of trade and investment flows amongst Western Europe, East Asia and North America and their regional arrangements provide a more differentiated and more complex picture than the allegedly homogenizing forces of the market do. Different spatial scales such as global, regional, national and local are not incompatible with each other, nor are they incompatible with the significance of actors in shaping the conditions which surround them. In this sense, international institutions such as GATT/WTO reflect such situations in their frameworks. Furthermore, regional blocks have strong political features which are extra-economic and include, but are not limited to, security, bargaining power, cooperation and 'lock in' effects. Not only are regional processes political and contingent, but they also originate from within society. They originally start from within and from below the particular regions themselves.

As noted earlier, there is no conclusive evidence that the degree of openness of an economy is correlated to a strong rate of growth. However, the latter tends to work as a magnet for attracting trade and investment flows. For many countries, the uncritical acceptance of neo-classical axioms has been transformed into domestic self-induced political priorities. By promoting increasing degrees of openness in economies through capital inflows and export promotion and by being unaware of equity issues, the Washington Consensus failed to fulfil the promise of greater rates of growth. Even when the emphasis on financial liberalization, along with the rest of the first generation of economic reforms, was in place, without their results matching the expectations of economic growth, the post-Washington Consensus focused more on institutional reforms.

The second generation of reforms aims to correct the improper and incomplete implementation of economic restructuring by reforming the institutional frameworks of developing countries. The post-Washington Consensus strategies include modernizing the national political systems of developing countries, along with features of their civil service, their judiciary and their financial sector. Provisions to reduce the likelihood of crisis and social equity concerns exist as well. The post-Washington Consensus strategies also consider the lowering of regulatory

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frameworks for labour and product markets, further trade liberalization and privatization programmes, the reduction of informal markets and increasing market access to developed markets.

The importance of institutions for tasks such as governance, negotiation, coordination and regulation has been highlighted as one of the flexible elements of social processes capable of dealing with changing circumstances. Nevertheless, institutions are in no position to guarantee any specific outcome at all, unless they are considered as a tool which the situated agents in context might employ. Institutional reforms are not neutral, as they display a strong political character which can have positive and negative impacts. Rather than being considered a goal, they are the means on which the actors can rely.

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