

## **The United States & Latin America: After “The Washington Consensus”**

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I would first like to thank Fundación Chile 21 and all the other think tanks in the region who are hosting this Forum for their invitation to participate in this conference. It is an honor and pleasure for me to be here with you today discussing such an interesting and important topic.

As you can see in the program, I have been asked to talk about the debate in the developed world, and in particular in the United States, about a new economic consensus.

I am not an economist, but I am the son of an economist and one of the many things I learned from my father who left his native country – Colombia – to work for the committee of the wise men of the Alliance for Progress in what would become my native city – Washington, DC – is that those who are not experts in economics should not attempt to talk about economics. As such, today I am not going to talk strictly about economics or even the debate among U.S. economists regarding what the new economic consensus should be or about which model is the most adequate one for the economic and social development of Latin America. Those topics I will leave to the economic experts among us.

Instead, in the time that we have together I will try to focus on something I consider crucial to the theme of this conference; namely, the debates that exist, or do not exist, in the halls of power in the United States about what our relations with Latin America should look like after the Washington Consensus and what our development policies should be in the Americas, as well as the rest of the world. Most of all I will try to explain the key factors that limit and frame the context of the debate in the United States regarding these very important topics.

### **CONSENSUS & FAILURE**

As you all well know, nearly 20 years ago the U.S. economist John Williamson gave life to the concept of the “Washington Consensus” when he wrote his now famous article explaining the 10 policies that the countries of the Americas needed to follow to recover from the so-called “lost decade” of the 1980s. Although Williamson has said on various occasions that the ideas in his original article were not prescriptive, but rather were, according to him, descriptions of a consensus that already existed in the Americas, his article and its ideas, and most of all the phrase “Washington Consensus,” have gone down in history as something very different. The phrase has come to be identified with the neo-liberal policies promoted particularly by international financial institutions such as the World Bank, the International Monetary Fund, and the Inter-American Development Bank during the 1990s, and as an important foundation for U.S. policies toward the rest of the Americas during that decade.

Almost all of the countries in the Americas, and numerous others outside of our hemisphere, followed important parts of the policies of the Consensus during the 1990s, and many continue to follow them today, although everyday fewer want to admit it.

After the financial crises at the end of the 1990s and at the beginning of this century, a debate about the effects of the Consensus and of neo-liberal economic policies in general began. In particular, the relative lack of economic growth in the Americas under the policies of the Consensus and the growing inequality in the region gave fuel to those who began to criticize the Consensus as a failure.

Today in Washington, there is a new consensus – that the famous “Washington Consensus” has failed as a foreign policy and as a policy of development in the Americas, or at least a growing majority agrees that the policies of the Consensus have been a failure, or at the very least radically incomplete. Of course there are people who do not believe the Consensus has failed, but they are a minority.

Unfortunately, for reasons I will identify in a moment, the new Washington consensus has not advanced beyond this basic conclusion. There is even a lack of consensus regarding why the Washington Consensus failed and, of course, regarding what should replace it.

On the topic of why the Consensus failed there are at least three schools of thought with important followers. Even though he does not defend everything that is referred to by the phrase “Washington Consensus” and, in particular, all the neo-liberal policies that came to be identified with the term, John Williamson himself continues to defend his original conception of the Consensus as a series of policies shared by countries in the region and by institutions in Washington that can have a positive effect on the economies of the region. There are also the more doctrinaire neo-liberals, including those who have occupied and continue to occupy important positions in the U.S. government, who maintain that the Consensus failed because countries in the Americas did not do everything necessary to implement a neo-liberal system, and that the lack of depth in neo-liberal reforms caused the failure. Finally, there are those who think that the Consensus itself, and in particular in its most extreme neo-liberal form, is the reason the region did not benefit from the economic growth it should have experienced or from a narrowing of economic inequality. They believe that the policies adopted in the name of the Consensus have been a mechanism to continue the unjust norms of traditional Latin American economies.

Although this description is necessarily a simplification, it helps us see that the different theories regarding the failure of the “Washington Consensus” take their followers in very different directions when looking for its replacement.

## **THE U.S. CONTEXT**

With these differences, a new consensus has not formed, nor does its formation seem imminent. In fact, for someone who lives in Washington, DC which, like the United States in general, is so profoundly politically divided talk about consensus regarding anything, and much more about something as important and complicated as the most effective policy of development for Latin America, promotes a desire to laugh or cry, or both. But those are not responsible options, and so

we need to understand why we have not arrived at a new consensus and the principal obstacles, from a U.S. perspective, standing in the way of its development.

From my point of view there are four dynamics that create the U.S. context for relations with Latin America and that profoundly affect the search for a new consensus. To identify and explain them should not be understood as support for the perceptions that exist; far from it. A big part of my job is to try to fight these perceptions, but it is important to not deny the reality that we face.

The four dynamics are:

- (1) A lack of official focus on Latin America;
- (2) The political paralysis of the United States in the face of the forces of globalization and the politics of fear;
- (3) The problem and the opportunity created by the neo-populists in the Americas; and
- (4) The perception that Latin America, and in particular its elites, must do more for itself.

Without understanding these dynamics it is impossible to create a new consensus in which the United States will participate. In the time I have remaining, I want to begin to try and explain these realities and challenges.

**Lack of focus.** There are wide ranging reasons why the United States should pay more attention to the other countries in the Americas. Every day the interconnections between the United States and the Americas deepen even further. The signs of these interconnections are almost endless – for example, the Hispanic population in the United States will soon represent 25 percent of the population of the country and already represents 50 percent of the country's current population growth; the majority of the residents of the United States that were born outside of the country were born in Latin America; the United States is already the fifth largest Spanish speaking country in the world; two of the United State's three principal commercial partners are countries in this hemisphere; three of the principal sources of energy resources for the United States are countries in this hemisphere; the fifth largest national television channel in the United States, larger, for example, than CNN, is *Univision*, a Spanish-language channel. I could go and on talking about these interconnections for the rest of the day.

Unfortunately these connections have not resulted in an adequate focus at official government level. Many politicians have promised to focus on the Americas. No one has done so in an effective and sustained manner. The current president, as a candidate in 2000, gave a speech in which he said he would look to the south as a focus during his presidency. He did not and with his political weakness, he will not be able to do so in the time he has remaining in office.

I speak of President Bush in the past tense because his presidency, in practical terms, has already ended. I come from a country, and in particular a city, in which even though the calendars read September 2007, it is already 2008. President Bush has more than one year left in his term and it is obvious that he will have the ability to influence events in the international sphere, but the

president's ability to change his image or the trajectory of the United States in the hemispheric or global context has passed.

Although the presidential candidates searching for Hispanic votes in the United States will say that they will not forget Latin America as President Bush has done, the focus of our next president will not be Latin America. Whoever finds himself (or herself) in the presidency on January 20, 2009, will face the reality of 100,000 troops in Iraq and a very long list of problems inherited from President Bush who will go down as one of the worst presidents in our country's history.

The challenges in the Americas will appear on that list. It is, unfortunately, difficult to believe they will be near the top of it. This does not mean that the identity of the next president of the United States will not have an impact on inter-American relations and the possibilities of finding and implementing a new consensus. Obviously, it will. But whoever it is, the next president will work under real and important restrictions.

One of those restrictions precedes President Bush and underlines the lack of focus on the Americas – the limited tools the United States uses in its relations with Latin America. This limitation also has a direct impact on how the United States will participate in any new consensus. Since at least beginning of the previous decade, the United States has tried to relate to Latin America at low fiscal costs to itself. The 1990s mantra of “trade, not aid” is the best example of this dynamic. But there are others. For example: the current fascination in Washington with the remittances Latino immigrants send to their families in the region. Although there are concrete and more honorable reasons for the focus on these remittances and how they can impact development in the Americas, one of the reasons there is so much attention given to these remittances is that they do not represent a direct federal fiscal cost to the United States.

Even though there are people arguing that the United States cannot maintain the same mentality of the 1990s, and much less that of the 1980s or 1970s, with regard to a region that continues to evolve and that our response to the failure of the Washington Consensus must include more resources to support effective programs of development in the Americas, it is difficult to imagine that the next president will be able to dedicate many more resources to our inter-American relations.

**Political Paralysis.** In addition to the lack of attention from which relations U.S.-Latin America relations suffer, another dynamic has a profound impact on the search for a new consensus and the participation of the United States in that search – the political paralysis of the United States in the face of the effects of globalization.

The body politic that is the United States has not found, and in large part has not even searched for, an answer to the forces of globalization that are affecting the ordinary citizens of this country like they are affecting workers around the world. Instead of an answer or new policy to confront the challenges and capture the opportunities created by globalization, the political system of the United States has found itself paralyzed.

The conflict regarding the war in Iraq is one key reason for this paralysis, but the complete lack of political leadership to confront these difficult issues has also contributed. As has the general poisoning of relations between the White House and congressional leadership resulting from the imperial manner in which President Bush has conducted his terms in office.

The best examples of this paralysis and lack of any real debate on globalization are the recent debates in the U.S. Congress regarding two issues that have an important impact on relations between the United States and Latin America – immigration reform and the pending free trade agreements with Panama, Peru, and Colombia.

That despite the support, or at least the rhetorical support, of President Bush we have been unable to reform an immigration system that almost everyone agrees is fundamentally broken is a symptom of the political paralysis we are living. Even though the proposed legislation was about reform of the immigration system, almost all of the debate and even the amendments proposed focused on the worries of U.S. workers. The debate about immigration reform quickly became a vehicle for giving life to the economic worries shared by a growing portion of the U.S. populace.

The same dynamic, with different protagonists, can be witnessed in the current debate regarding the free trade agreements with Panama, Peru, and Colombia. That the United States is having trouble entering into agreements that are obviously in its economic favor, being that they would open other markets to its products in countries that already benefit from the opportunity to send almost all of their products to the United States without tariffs, indicates the depth of the lack of confidence among U.S. workers.

This paralysis will not be resolved with specific solutions to the issues of immigration reform or the free trade agreements. Ending this paralysis will only be possible when we have the national discussion that we need to have about exactly what form a new social contract should take. The current social contract in the United States, as in many parts of the world, was formed in another era and needs to be modernized. If you strain to look beyond the Iraq debate that dominates the electoral campaign in which we find ourselves in the United States, you can begin to hear the initial rumblings of this debate.

The debate also can be seen in the work of think tanks like the one where I work, the Center for American Progress, where my colleagues have and continue to propose elements of this new social contract such as a system of universal health care, programs to promote economic and social mobility, education reform, a new universal savings plan subsidized by the government for those of lesser means, a transformation of our economy to a low carbon economy, and a development policy focused on promoting a decent work agenda.

It is our hope that these ideas and other similar ones will be part of a plan of government of the next president whom we hope will be more progressive than the current president. (Although to be more progressive than the current one will be quite easy.)

After putting our house in order, something I believe that whoever is the next president they will have to do, the United States will be ready to involve itself more directly in the issues of a new

international consensus regarding social cohesion and development. Until this happens, or at least until it begins to happen, I find it unlikely that the United States will be in a position to have a dynamic impact on the search for what we are talking about today. This is not to say that the United States will be absent from the international discussion. Obviously, it will not be, but its ability to effectively contribute will not be what it should without important domestic changes.

Something that will have an immediate impact on the domestic dynamic in the United States, and by extension in the hemispheric and global spheres, would be an end to the politics of fear practiced by President Bush with such electoral effectiveness and such damage on so many levels since September 11, 2001. If the next president of the United States arrives in office on the strength of a message of change and hope, and not on one of continuation and fear, then the evolution that needs to occur in the United States will be greatly helped.

**Neo-populists.** Another message that has had such electoral effectiveness in the Americas will also have an important impact on how the United States will pursue its regional relations. The message of the neo-populists in the Americas creates problems and opportunities for the participation of the United States in the search for a new consensus in the Americas.

The opportunity is that they have helped underline for those that do not pay much attention to what goes on in the Americas, that is to say the great majority of those that occupy positions of power at the federal level in the United States, of the necessity to confront the hemisphere's endemic poverty and inequality. They have helped to create recognition of the fact that poverty in the hemisphere must be fought and must be fought now.

They have also created a political reason to pay attention to what happens in the Americas – the perceived possibility that the United States is going to “lose the Americas.”

This dynamic of not wanting to lose the Americas also creates the principal challenge posed by the neo-populists to U.S. participation in the search for a new consensus – the risk that instead of focusing on finding policies to improve the economic and social situation of people throughout the Americas, U.S. politicians will confront the neo-populists Bush-style, that is, at a purely rhetorical level. That obviously would not advance the interests of the United States, nor of those who are searching for a new policy of social cohesion and development, but it could have domestic political advantages in the United States.

**More for itself.** The last factor in the dynamic that affects relations between the United States and Latin America from a U.S. perspective that I believe deserves comment is the growing consensus that Latin America must do more for itself and that it has the capacity to do so.

This belief has two important aspects.

The first is the growing notion that the countries of Latin America must come to a new internal consensus about the best path toward the future in light of the recognition that a vision of the future cannot be imposed from the outside. (Among the few good things that have resulted from the neoconservative era in the United States is, at last, recognition in the United States that real change cannot be imposed in addition to a desire for more pragmatic policies.)



The belief that Latin America must do more for itself also has another important aspect, and that is that every day I hear more and more people who work in this area talk about the need for Latin America's elites to do more to help their countries and their people. Although not everyone talks about this in public or with their friends who are part of the elites, there is a belief that the elites need to accept their social responsibility at two levels.

One level is in supporting, or at least not preventing, the reforms necessary to dissipate the concentration of economic power that exists in many countries in Latin America. The other is at a personal level. The United States is living a period in which people who accumulated fortunes during the spectacular growth of the stock market in the 1990s are contributing large portions of their fortunes to the betterment of the world and of those with lesser means. And we are not only talking about people like Bill Gates, or the Clinton Global Initiative, but of a sizeable and in many senses anonymous group. People think the elites in Latin America should be doing something similar and they do not see it happening.

To clarify, many of the people, although not all, who talk about the responsibility of Latin American elites also maintain that U.S. elites need to subject themselves to similar reforms.

#### **CONCLUSION**

In conclusion, in many respects, Latin America finds itself further along in the search for a new model of inclusive development and social cohesion. In my country we are trying to expand the work that has begun but has not yet found itself in power. I hope that in a not too distant future the United States can once again be a constructive partner in this search.