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Kathleen B. Cooper

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ECONOMIC POLICY IN THE HEMISPHERE: SUCCESSSES AND FAILURES

Kathleen B. Cooper

THE major focus of this session was the examination of the successes and failures of the economic policies pursued by Latin American countries over the past two decades. The “Washington Consensus,” a term coined by John Williamson in 1990, included a list of ten reforms that were widely believed to be the right road for developing countries if they were to improve their economic performance and become integrated into the world economy. These ten reforms included trade and financial liberalization, fiscal discipline and a competitive exchange rate, reordering of public expenditure priorities and openness to foreign direct investment, tax reform and deregulation, privatization and private property rights.

Weintraub’s presentation set the stage for the remaining discussion by reviewing the major swings in Latin America’s economies and by delineating some of the reasons for the cyclical and volatility of these economies. Those reasons are, in his view, high income inequality and poverty levels, the heavy use of debt in the 1980s, and minimization of foreign direct investment. The serious problems in the 1980s for Latin America began with the Mexican debt crisis in 1982 and were followed by a decade of economic stagnation. The positive outcome from these events was a change in the development model to include an export promotion model and an effort to attract foreign direct investment. The decade of the 1990s began with solid growth but slowed later in the decade, causing strong pushback against the “neo-liberal” policies promoted by international financial institutions. Even after this pushback, most countries still considered it important to pursue sound fiscal policy, to control inflation, and to emphasize export promotion and foreign direct investment.

Weintraub argues that a number of policies have been strengthened across Latin America. Fiscal policy was strengthened and inflation lowered dramatically. Import markets are more open but important restrictions remain; working conditions are better but still need improvement; social spending has risen, but tax collections are too low in most countries to support the needed level of social spending. On the negative side, structural rigidities remain in many of these countries; high severance costs hold down employment; financial intermediation is weak; informal

markets are large; income inequality remains high; and justice systems are deficient and corruption high.

In summary, Weintraub worries that growth through much of this decade remains an artifact of high commodity prices and strong U.S. growth, both of which are reversible. Multiple trade agreements have been signed but are not that significant. Latin America remains the inequality champion of the world; and job informality is high, which affects tax collections and pension systems. Thus, economic and political accomplishments have been substantial, but both need much reinforcement.

Glade examines the issue of how policy implementation fits into a very long-term historical perspective and asks the question whether the world is turning away from free trade and open market economies. He analyzes three major currents of policy development over the past 150 years, emphasizing that there were few distinct breaks but rather lengthy segues from one policy style to another. He identifies the major phases (without dates) over the past 150 years of "modernity." First, economic liberalism emerged from mercantilist policies and trade restrictions diminished. Second, economic liberalism gradually ceded ground to growing economic intervention in domestic and international matters. Third, the neo-liberal "Washington Consensus" swept the world as the shortcomings of intervention were recognized. The question today is whether we are moving back to a strong public sector and away from free trade policies. His nuanced answer is that we will not move backward on these two fronts but that a more complex regulatory regime that ties together national and international efforts is on the horizon.

Finally, Collins-Williams provides a pragmatic review of the importance of trade to Canada, noting that Canada's trade to GDP ratio is above 70 percent and that more than 80 percent of Canada's exports are destined for the United States. He discusses how much Latin America has to gain from the Doha Round, especially the proposed agricultural changes, as well as the plusses and minuses of plurilateral versus multilateral trade agreements, both of which he believes add value. Canada's has been actively engaged with the hemisphere on trade liberalization issues for many years. The Free Trade Agreement of the Americas (FTAA) has not proceeded due largely to concerns about agricultural reform, trade rules, and a hesitancy to take on commitments on investment and procurement. He expresses pleasure, however, that the trade liberalization components of the Washington Consensus have been successful in those Latin American countries that have followed them, and that they do not appear on the verge of being expunged. At the very least, export promotion is still preferred to import substitution.