2008

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Security and Defense Studies Review, Volume 8, Summer 2008
http://hdl.handle.net/10945/43666

The Washington Consensus and Latin America's Left Turn: Has U.S. National Security Suffered as a Result?

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"Latin America is swerving left, and distinct backlashes are under way against the predominant trends of the last 15 years: free-market reforms, agreement with the United States on a number of issues, and the consolidation of representative democracy."

Jorge Casteñeda, former Foreign Minister of Mexico, 2006

Introduction

National security policy documents dating back to 1958 explicitly argue that the promotion of economic development is essential to U.S. national security (U.S. Government [USG], 1958). President Bush, echoing comments of his predecessors, has repeatedly linked market-oriented reforms with U.S. national security (USG 1982, 2002, 2006).[1] With the advent of transnational terrorist organizations, the utilization of economic reform as a method of combating endemic poverty and security concerns in developing countries has moved to the forefront of non-military policy options. Curiously, these discussions have failed to examine whether reform, in the short-run, creates additional enmity towards the United States.

Given U.S. national security concerns itself with maintaining a vibrant global economy, it is unsurprising that, following the 1980's eruption of economic crises in Latin America, the United States advocated ten reforms known as the Washington Consensus.[2] Reducing the state's role in the economy, improving economic efficiency

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[1] See, for example, The National Security Strategy of the United States of America (1982), (2002), (2006), among others. In a 17 September 2002 White House speech, President Bush outlined his hopes to bring "democracy, development, free markets, and free trade to every corner of the world," given that impoverished states with weak institutions and corruption are vulnerable to terrorist networks within their borders, which negatively impacts global security. http://www.informationclearinghouse.info/article2320.htm [date accessed 3/2/06].

[2] The ten original reforms were as follows: (1) fiscal discipline, (2) reordering public expenditure priorities, (3) tax reform, (4) liberalizing interest rates, (5) a competitive exchange rate, (6) trade liberalization, (7) liberalization of inward foreign direct investment, (8) privatization, (9) deregulation, and (10) property rights. See: Williamson, John. "What Washington Means by Policy Reform" Chapter 2 in *Latin American Adjustment: How Much Has Happened?* by John Williamson, ed.

and promoting inter- and intra-regional trade would, as proponents of the reforms argue, enhance regional and U.S. security interests. While the success of these reforms remains a point of contention (Easterly, 2002; Krugman, 1998; Lora and Barrera, 1997; Stallings and Peres, 2000), the literature has not specifically examined whether the reforms themselves affected U.S. national security.

The emergence of leftist regimes in Argentina and Venezuela raises the question whether Latin America is turning away from the 1990s liberal economic reforms. The global perception of increasing Latin American hostility towards the United States, coupled with moves towards nationalization of natural resource industries in some countries, lends itself to the question of whether the rising tide of leftist and populist governments is in response to the market-oriented reforms, more commonly known as the Washington Consensus. Could these reforms, often thought of as a method for improving regional security through the promotion of economic development, have harmed it instead?

In this paper, we discuss whether the reforms implemented in Latin America under the guise of the Washington Consensus ultimately impacted U.S. national security. Given the rise of leftist regimes in Argentina and Venezuela coupled with the distancing of former allies in Brazil and Chile, we ask whether these reforms, meant to strengthen U.S national security, harmed it instead. While there was a lack of consensus on the scope, type, and speed of the reforms and competing objectives among stakeholders, the reforms themselves appear to have improved economic growth and reduced poverty. Furthermore, while increasingly anti-American sentiment is attributed in part to the neoliberal reforms, we argue that support for free trade and other aspects of the neo-liberal reforms are strong. This perception is key to understanding how the reforms ultimately impacted U.S. national security.

The remainder of the paper is structured as follows. We first briefly review the literature on the causes of the Latin American economic crises, which led to the Washington Consensus' formulation. In the second section, we examine whether the reforms, in general, were successful and consider the competing theories on the success (or failure) of the Washington Consensus. We highlight the progress (or lack thereof) of reform in four countries of strategic interest to the United States: Argentina, Brazil, Chile, and Venezuela. We then discuss whether the reforms should be continued or abandoned in light of the evidence on the reforms' influence. The last section of the paper concludes and offers policy advice for further regional relations.

Institute for International Economics, April 1990 and Williamson, John. "A Short History of the Washington Consensus." Commissioned by Fundación Centro de Investigaciones de Relaciones Internacionales y Desarrollo (CIDOB) for a conference "From the Washington Consensus toward a new Global Governance," Barcelona, September 22-25, 2004.

Setting the Crisis Stage: Latin American Statist Intervention

Prior to the neoliberal reforms of the late 1980s and early 1990s, statism dominated the Latin American economic policy debate. The state intervened in nearly every sector of the economy while the bureaucracy struggled to develop the capacity to provide promised public services as well as to implement programs and reforms. (Corrales, 2003; Edwards, 1995; Starr and Oxhorn, 1999; Vargas Llosa, 2005). As economic distortions increased, Latin American governments generally responded by increasing, rather than decreasing, the emphasis on the state's role in the economy.

In an effort to sustain itself, the Latin American state frequently based its interventions upon personal ties to the administration or corruption, which was at the expense of social welfare, efficiency and economic transformation (Boron, 1995; Franko, 2003; Smith, Acuna, and Gamarra, 1994a, 1994b). Private actors tended to take advantage of the incapacitated state, using it as an insurance system for reckless business ventures. Highly protected markets created perverse business incentives, which focused predominantly on delivery speed, regardless of quality or cost, in order to more rapidly invest their revenues in financial markets. Goods and services declined in quality, increased in cost and relied on state subsidization for export; this directly and negatively impacted the civilian population. These subsidies, combined with overvalued exchange rates and excess demand, fueled inflation.

Despite holding the largest number of assets, the state itself became the leading cause of industrial decay, and by the end of the 1980s, many Latin American governments were unable to generate and invest resources.[3] State deficits soared due to a combination of heavy-handed state intervention in setting up new industries; providing credit to private firms; and subsidizing exports. These rising deficits, in conjunction with currency overvaluation, decreased tax revenues. Loans became more expensive with rising interest rates, further weakening capacity. States were forced to consider two traditional choices for financing debt – printing, or borrowing, more money (Cardoso and Helwege, 1991, 2000; Edwards, 1995, Sachs, 1990).

With Mexico's 1982 default, the risk premium on Latin American sovereign debt increased to the point at which it effectively prohibited new sovereign debt issuance. This left Latin American governments with no other recourse than to print more money, leading to inflation, and, in some instances, hyperinflation. Given that inflation disproportionately impacts the poor, it is not surprising that, during the 1980s, poverty rates dramatically increased throughout Latin America (Altimir, 1994; Bulmer-Thomas, 1996; Lustig, 1995; Chen and Ravallion, 1994).

As a direct result of the 1982 crisis, the region experienced a rapid decline in foreign capital inflows coupled with capital flight (Alesina and Tabellini 1989; Diaz-Alejandro, Krugman, and Sachs, 1984). Capital flight from Latin America averaged 2.0

[3] Corrales, Javier. (2003). "Market Reforms." Chapter 4 in Domínguez, Jorge and Michael Shifter (Eds.) Constructing Democratic Governance in Latin America (Second Edition). Baltimore, MD: The John Hopkins University Press, 74-99.

percent of GNP from 1978-1984.[4] Capital flight increased to 2.8 percent of GNP between 1985-1987 for Latin America (Schineller, 1997)[5]. Waning confidence in the region undermined economic development and the duration came to be known as the "lost decade." These combined factors amounted to a Latin American economic catastrophe, which paved the way for the neoliberal reforms implemented in the late 1980s.

Washington Consensus: A Success Story or a Dismal Failure?

Given the relatively poor economic performance of Latin American economies in the 1980s, proponents of the Washington Consensus argued that should Latin American policy makers undertake painful market-based economic reforms, their respective economies would benefit from increased intra and inter-regional trade and economic growth. Improved economic performance would then translate into strengthened democratic and intra-regional stability. As such, the initial set of reforms focused on liberalizing internal and external markets through the reduction of statism.

The ten original Washington Consensus reforms were: (1) fiscal discipline, (2) reordering public expenditure priorities, (3) tax reform, (4) liberalizing interest rates, (5) a competitive exchange rate, (6) trade liberalization, (7) liberalization of inward foreign direct investment, (8) privatization, (9) deregulation, and (10) property rights (Williamson, 1994, 2004). These reforms substantially broadened over time to include, among other things, democratic governance, fiscal decentralization, and a reduction in public corruption. Concurrently, the term Washington Consensus became synonymous with a neoliberalist, and some argued, rigid approach to economic reform (Moreno-Brid, Carlos, Caldenty, and Napoles, 2004; Naim, 2002; Ocampo, 2004; Williamson, 2002; Woo, 2004). Furthermore, the singular focus on economic efficiency, coupled with often-piecemeal implementation, led some to conclude that the Washington Consensus exacerbated income inequality (Taylor, 2000; Rosser and Vcherashynaya, 2001). Fueling such criticism was the fact that the proposed reforms' focus was on increasing growth, thereby improving development across all income strata, and did not explicitly consider inequality as an objective.

Did the reforms ultimately succeed?

Generally the literature's assessment of the reforms has not been favorable, yet conflict remains whether the Consensus positively affected economic growth, poverty, and other macroeconomic objectives. First, disagreement persists on which reforms are necessary to achieve both market liberalization and statism reduction. Second, the Consensus' proponents arguably had a narrow view of macroeconomic stability; they tended to view almost every instance of state intervention as inefficient and thus negative. This limited view appeared to disregard reasonable arguments for the state's role in providing an institutional framework to facilitate market transactions. Detractors of the Consensus argued that the neoliberal perspective championed economic policy,

[4] In comparison, capital flight for Asia during the same time period was 0.9 percent of GNP.
[5] Relative to Asia at 2.0 percent of GNP.

disregarded social components, and failed to address the implications of pervasive inequalities in both income and land distribution.[6] While the Washington Consensus was reasonably successful in curbing inflation and stimulating job creation, approximately 70 percent of the jobs created were in the informal sector of the economy (Moreno-Bird, Caldentey, and Napoles, 2004). Yet, empirical and anecdotal evidence suggests that the neoliberal reforms have had a statistically discernable positive impact on economic growth (Lora and Barrera, 1997; Shirley and Walsh, 2000; Stallings and Peres, 2000).

The Consensus also focused almost exclusively on crisis resolution rather than crisis prevention. While proponents argued that the reforms would ultimately prevent crises in the long run, the short-term failure to develop improved liquidity instruments to combat capital flow reversals and other shocks is curious (Jadresic, 2004). Without these internal and external measures, the short-term vulnerability of these countries to exogenous shocks undoubtedly increased. As weak institutional capacity undermines economic growth, the Washington Consensus' omission of methods to increase institutional strength points to an additional deficiency.

Latin Americans also were inclined to view the market-oriented reforms as the product of external individuals and in the interests of wealthier nations (Edwards, 1994; Stokes, 2001). Coupled with the increasing perception that the benefits of global integration have been unevenly distributed, accruing primarily to individuals in upper-income brackets with the costs being borne by lower-income individuals, it should not be surprising that the working class' support for the reforms eroded over time (Lora and Panizza, 2002; Singh, Belaisch, Collyns, De Masi, Krieger, Meredith, and Rennhack, 2005). Following this argument, one might conclude that the inability of policymakers to make citizens stakeholders in these reforms may be one of the most glaring failures of the Washington Consensus. Yet, empirical evidence continues to suggest strong public support for free trade, globalization, and foreign investment. As economic growth has occurred in Latin America, support for these policies appears to have increased, suggesting a strong correlation between actual growth and support for market-based reforms (Magaloni and Romero, 2004).

Generally, first phase reforms prioritized constraining inflation to promote macroeconomic stability. Through the application of standard macroeconomic instruments, to include curbs on domestic liquidity, significant increases in real interest rates, and, in the case of Argentina, pegging the domestic currency to the U.S. dollar, macroeconomic stability improved dramatically. Macroeconomic recovery induced corresponding increases in public and private expectations regarding prospects for further reform. Paradoxically, the increase in expectations rendered the next stage of reforms more difficult to implement (Weyland, 2002). Second phase reforms typically

[6] Interestingly, the Washington Consensus never addressed the extreme level of regional income disparity, despite the fact that, at the time of its crafting, a significant number of authors maintained a negative relationship between income inequality and economic growth. Further exploration of this relationship, however, has since suggested the potential of a positive relationship between the two variables. See, for example, Dollar and Kraay (2004); Forbes (2000); and Lundberg and Squire (2003), among others.

involved privatizing state-owned enterprises (SOEs), which invariably created visible costs with the promise of future benefits (Naim and Lozada, 2001). Given a reasonable amount of macroeconomic stability, the urgency for further reform lessened, allowing those opposed to reform to control the debate. Citizens were less likely to support a second phase of reforms, usually accompanied with increasing social costs, especially if the first phase reforms had been successful (Weyland, 2002).

While the stipulated reforms at the time of their crafting enjoyed a certain amount of conceptual consensus among Washington policymakers, the reforms' scope, sequencing, and pace remained a matter of contention. With the extensive amount of contention afforded not only to the method by which to implement the reforms, but also to their fundamental nature, it is not surprising that countries experienced different degrees of success upon their implementation. We now turn to the question of why we observe disparate outcomes in the execution of the Washington Consensus' reforms.

Is there an explanation for the problems of reform?

Market-based reforms generally entail often-painful periods of adjustment for many sectors of an economy. The withdrawal (or, at a minimum, reduced role) of the state ultimately means that many actors, who benefit from the interventionist role of the state, bear the costs of reform. Privatization, for example, may negatively impact workers, managers, consumers and politicians alike for the promise of future efficiency gains. Workers and managers may find their livelihoods threatened as privatization typically leads to downsizing and profit-motivated management. Consumers, who have typically received goods and services at subsidized prices, are then confronted with the true cost of these products. Politicians, who may use SOEs to grant favors or other rent-seeking activities, find their power reduced by privatization. Although the majority of principals may initially support the proposed efficiency improvements, the emergence of concentrated costs, which are borne by a sub-set of individuals, may lead to the emergence of an active opposition to the proposed improvements. Ultimately, the supporters of the proposed improvements may suffer from free riding and thus may encounter difficulty in defending their preferences against the objections of those who must bear the costs of the proposed reform (Olson, 1971).

We have observed this behavior numerous times in Latin America. Throughout Latin America, active opposition from a coalition of workers, consumers, and politicians has repeatedly delayed SOE privatization despite readily acknowledged long-term benefits both to the state budget and to the macroeconomy. In Bolivia (2001) and Argentina (2002), for example, water privatizations led to substantial price increases and workforce reductions, creating public outcry and the abandonment of the privatization programs (Nellis, 2002; Nellis, et al 2004). Public opinion data suggests that voters who reside in countries whose economic performance improved from the 1990s relative to the 1980s were stronger supporters of reducing the state's role in the economy. Inflation's impact, however, dwarfs the effect of economic growth. Voters who reside in countries that were successful in reducing inflation over the same period are significantly more hostile to efforts at reducing the state's role and, in fact, desire an expansion of the government's role (Magaloni and Vidal, 2004).

Given that Argentina, Brazil, Chile and Venezuela all implemented similar market-based reforms in the 1980s, why then have there been such glaring differences in terms of the reforms' success in improving macroeconomic stability? One argument is that authoritarian regimes, or those with strong democratic mandates,[7] may be more able to implement unpopular, though economically necessary, reforms. Relatively weak regimes or those with weak popular support would thus encounter greater difficulty implementing reforms and, consequently, would be less successful in achieving macroeconomic stability.[8] Harkening back to the early development literature, this approach leads to the conclusion that an "iron hand" is necessary for economic reform (Huntington, 1968; Huntington and Dominguez, 1975). Proponents of an "iron hand" approach might argue that Chile's economic success is due, in part, to Pinochet's domination of the political process. Peruvian president Alberto Fujimori might serve as a second example of a democratically elected leader that brought about macroeconomic stability while simultaneously combating an insurgency. Yet, for every Pinochet (who seized power in a coup) or Fujimori (who was democratically elected), both of whom abused political power and were ultimately forced from office, there exists a plethora of counter-examples, to include the military governments of Argentina and Brazil.

A second line of thought suggests that national leaders implemented reforms because they feared that they would no longer be able to receive subsidized loans from international financial institutions (IFIs). Many IFIs, such as the International Monetary Fund (IMF) and the World Bank, attached conditions to loans that, in many cases, mirrored the neoliberal recommendations of the Washington Consensus (Rodrik, 1996; Hayami, 2003; Williamson, 2000). Whether such loans induced moral hazard is the subject of an intense debate in the economics literature (Dell'Aricca, Goode, and Zettelmeyer, 2000; Dreher, 2004; Lane and Phillips, 2000). Furthermore, the increasing unpopularity of these institutions, which were often viewed as instruments of U.S. foreign policy, suggests that the political cost of securing their support also increased over time. What is clear is that conditions were subject to renegotiation and, in the case of Argentina, outright abandonment. Despite the suggestion that these countries abrogated their agreements with the IFIs, loans and grants continued to flow. In the end, the IMF validated criticisms that the IFIs worsened the 1990s crises with the 2004 recognition that its policies exacerbated the economic crisis, culminating in Argentina's 2001 economic collapse (Bluestein, 2004).

A third view asserts that Latin Americans were only willing to accept painful reforms at the crisis point. Given that reform entailed concentrated costs and diffuse, uncertain benefits, it should not be surprising that reform only became possible when the alternative was tantamount to economic collapse (Rodrik, 2004; Pastor and Tomz, 2002; Haggard and Webb, 2000). If individuals are risk-seeking in the domain of losses and risk averse in the domain of gains, then the potential of significant economic loss can motivate societies to accept otherwise undesirable reforms (Edwards, 1995; Weyland,

[7] Armijo and Faucher (2002) define a strong presidential mandate as having 52 percent or greater of the popular vote.
[8] For a discussion of this theory, see, for example, Kaufman (1985) and Skidmore and Smith (1992).

1998). Following this argument, the success in combating inflation undermined the incentives for further reform. As the reforms reduced inflation, potential losses shrunk, inducing risk aversion. The next set of reforms, which had certain economic losses for some groups and uncertain economic gains for others, compounded the problem. Undoubtedly Argentina, and to a lesser extent, Brazil, implemented economic reforms at the precipice. Chile, having started its reforms ahead of the other countries, remained relatively shielded from the 1980s economic crises (Valenzeula, 2005). Venezuela, in part due to the influx of natural resource extraction revenues, was less inclined to engage in substantial reform. Yet, this argument is more appropriate for explaining why countries *attempt* reform rather than why countries choose to *sustain* reform over time. We argue that a combination of these theories can help account for the disparate outcomes in Latin America and the perception that the Washington Consensus ultimately failed.

Four Countries, Four Outcomes

Chile today, with economic growth averaging six percent a year, is perhaps the most economically stable country within Latin America. Chile's initial reform efforts in the 1970s and 1980s, however, resulted in significant increases in unemployment, inflation, and income inequality. From this experience, Chile sought to address income inequality explicitly, thus increasing popular support for market-oriented economic reforms. A combination of strong economic growth starting in the mid-1980s and expanded social programs witnessed a decline in poverty from 40 percent of households in 1987 to 17 percent in 1998. Chile's poverty reduction efforts have also markedly reduced income inequality, with the subsidy component of social programs reaching US$10,225 per capita in 1998 (World Bank, 2001). The Chilean government used natural resource extraction revenues, primarily from copper, which accounts for ten percent of GDP and 35-45 percent of export revenues (IMF, 2005), to foster economic reform. The Chilean government also aggressively diversified its export portfolio through its support of Chilean producers in niche export markets.[9] This approach appears to have borne fruit as it was coupled with numerous bi and multi-lateral free trade agreements to prevent dependence on one export market. Due to Asia's increasing presence in the Chilean economy, Chile plans to sign more free trade agreements with its Asian trading partners as a way to emphasize Asia's increasing importance to the Chilean trade portfolio. The United States, however, remains Chile's largest trading partner, consuming approximately 17% of Chilean exports.[10] Undoubtedly, Chileans have high expectations for the future, with 76 percent surveyed responding that their children will live better than they do today (Latinobarómetro, 2005). Yet, while 75% reported 'good or very good' opinions of the United States in 1995, only 41% reported having similar opinions in 2004 (Latinobarómetro, 2004).

[9] Chilean niche markets include, wine, aquaculture, high-end produce, fish and wood products.
[10] Chile holds Free Trade Agreements (FTAs) with the US, EU, South Korea, New Zealand, Singapore, Brunei, and China. In 2005, Chile reached a partial trade agreement with India and began full-fledged FTA negotiations with India and Japan in 2006. Exhibiting Chilean trade balance, their largest trading partners are Europe (25.1%), Asia (33.1%) Latin America (15.7%) and North America (19%) (Baldock, 2006).

Brazil typified the approach of many Latin American governments with a reliance on import substitution and externally financed investments to foster economic growth in the 1960s and 1970s.[11] Following the debt crises in the early 1980s, Brazil experienced a series of recessions and bouts of inflation. Starting in 1992, Brazil began liberalization of its external market and the privatization of SOEs, notably telecommunications and energy. The Real Plan of 1994 introduced a new currency and a crawling peg in conjunction with financial and technical assistance from the IFIs. As a result of more than a decade of economic reforms, Brazil's monetary and fiscal outlook is positive. Increases in the demand for and prices of Brazilian exports have contributed to significant trade and current account surpluses. Simultaneously, positive financial market sentiment, global liquidity, and domestic interest rates have induced capital inflows. Brazilian sovereign debt risk premiums have fallen, its stock market is at an historical high, and the real continues to appreciate in value (IMF, 2006).

The impact of these reforms is significant in terms of poverty alleviation. There were 61 million individuals in poverty in 1970 compared to 33 million in 1999 (Rocha, 2003). Unlike Chile, however, income inequality remains a persistent characteristic of the Brazilian economy. The top one percent of households earn approximately fifteen percent of all income, while the top ten percent earn approximately fifty percent of all income; this figure has remained relatively stable since 1970 (World Bank, 2006). Thus while reform has dramatically lowered poverty, it has failed to date to address persistent inequality, although we do note that the Washington Consensus did not expressly concern itself with inequality.

Brazil's experience illustrates several of our arguments. First, Brazil only seriously engaged in reform after a series of economic crises. Second, the economic reforms created short-term disruptions, which entailed concentrated costs, in return for longer-term gains in efficiency and growth.[12] Third, Brazil employed IFI financial support and, when necessary, renegotiated conditions. Finally, the Brazilian government overcame risk aversion in the domain of gains through a strong political commitment to reform and real gains in income across income strata. While there was concern that President Lula would retreat from market-oriented reforms, he typifies the Latin American approach of disconnecting political rhetoric from economic policy. Curiously, even though proponents of the Washington Consensus might characterize Brazil as a continuing success, the perception of the reforms and of the United States is negative. Only 41% of respondents thought that privatization of SOEs had been beneficial for Brazil (Latinobarómetro, 2005). Furthermore, while 71% reported 'good or very good' opinions of the United States in 1998, only 50% reported having similar opinions in 2004. (Latinobarómetro, 2004).

Argentina, as with Brazil, aggressively implemented economic reforms in the late 1980s after decades of stagnation, chronic high inflation and recurrent balance of payments crises. The Currency Board, which pegged the peso to the U.S. dollar at

[11] Brazil's per capita GDP increased from approximately 1,332 (constant 2000 USD) in 1960 to 3,256 (constant 2000 USD) in 1980 (World Bank, 2007).

[12] Abrache and Menzes-Fihlo (2000) and Ferriera and Rossi (2003) find, for example, that trade liberalization in Brazil ultimately resulted in a rise in productivity and profitability.

parity, was the centerpiece of the reform program which, at its core, attempted to re-start economic growth through macroeconomic stability and market discipline (Cavallo, 1997). The measures included improving public sector efficiency; redesigning the relationships between federal and provincial governments; implementing one of the largest privatization programs in the world; liberalizing domestic and international transactions in both financial and real sectors; and improving social services delivery at both federal and provincial levels (World Bank, 2000). International organizations (such as the World Bank, International Monetary Fund and Inter-American Development Bank) and private banks gave Argentina an unprecedented amount of financial aid and technical assistance; Argentina became the example of how the Washington Consensus could help a country achieve macroeconomic stability.

While the economic reforms were popular in terms of pegging the peso to the U.S. dollar and fostering economic growth in the early 1990s, corruption, institutional weaknesses, and political opposition plagued the reform effort. While IFIs and some policymakers saw the peg as a temporary measure, it quickly became the 'third rail' of Argentine politics. The political popularity of the peg made it impossible to adjust, which led to overvaluation, recession, and the peg's eventual collapse in 2001. As economic conditions worsened, Argentine perception of the IFIs and the United States by association, worsened as well. We observe a corresponding rise in anti-American sentiment and an erosion of U.S.-Argentine relations. Argentina's refusal to grant the United States an Article 98 waiver from the International Criminal Court treaty and its recent decision to sever ties with the U.S. Army's Western Hemisphere Institute for Security Cooperation (WHINSEC)[13] are examples. While never popular in terms of the Argentine public, the perception of the United States in public opinion polls has declined dramatically since 2000. While 58% reported 'good or very good' opinions of the United States in 1998, for example, only 31% reported having similar opinions in 2004. Furthermore, only 41% of Argentines surveyed thought that relations between Argentina and the United States were 'very good' or 'fairly good', down from 76% in 1997 (Latinobarómetro, 2004).

While Venezuela, similar to Argentina, suffered economic crises, its reform path had distinct differences. Largely considered an economic and political success, pre-1980s Venezuela had a stable democracy and a relatively high level of per-capita income. Yet, by the late 1990s, Venezuela suffered through two decades of economic crises, to include: sustained inflation; fiscal and banking crises; increased poverty rates, which dramatically decreased real wages; and a collapse of the democratic system. As with Argentina, Brazil, and Chile, Venezuela implemented economic reforms during periods of crisis, yet, unlike Chile and Brazil, and to a lesser extent Argentina, Venezuela was unable to sustain the myriad of reform efforts over time.

Political change in Venezuela often accompanied the eruption of an economic, fiscal, or currency crisis, which was met with a series of economic packages, to include: heterodox stabilization (1985-1988), shock therapy (1989-1992), gradualism (1996-1998), reforms by executive "special powers" (early 1980s, 1993-1994, 1998), reforms by

[13] Formerly School of the Americas (SOA).

negotiations with opposition parties (1996-1998), stabilization through price controls (1994-1996), deep trade liberalization (1990-1993), concessions to economic losers from trade liberalization (1994-1998), and direct subsidies to vulnerable sectors (1990-1992) (Corrales, 2000). Political instability and risk aversion led to the abandonment of the reform programs upon achievement of moderate success, thereby creating the conditions for the next president, and typically, more severe crisis. Over time, the Venezuelan public came to associate economic reform as merely an attempt of those in power to reap short-term benefits by manipulating economic policy in response to a perceived crisis. Some have argued that Venezuelan oil industry profits contributed to the perception that the economic crises were neither as serious nor as deep as they were in other regions; thus, following initial reform efforts, citizens provided comparatively low support for additional reforms (Weyland, 2002 and Armijo, Elliot, and Faucher, 2002).

In Venezuela, by 1998, we observe the absence of a strong leader, the prevalence of risk aversion, and an almost complete lack of faith in domestic and international institutions. Whether the Washington Consensus had an impact in Venezuela is hard to discern as no reform program was sustained long enough to address the underlying structural imbalances in the Venezuelan economy. We can conclude that the failure of the myriad reform efforts (albeit incomplete) over two decades, coupled with real economic decline, led, in no small part, to the election of Venezuela's current president, Hugo Chavez, both a populist and a self-declared anti-capitalist. Chavez has, in no uncertain terms, sought to position Venezuela as a regional counterweight to the United States and has solicited alliances with U.S. competitors on the global stage, to include China and Iran.[14] President Chavez's current drive to nationalize the commanding heights of the Venezuelan economy has little to do with the previous attempts to implement neoliberal reforms and is instead a political policy to deprive the United States of economic and political influence in the region.

Should We Blame the Messenger?

With the apparent rise of populist regimes in Latin America, the implications for U.S. national security are significant. The United States requires the cooperation of Latin American governments across a spectrum of challenges, to include narco-terrorism, drug trafficking, illegal immigration and natural resource availability, among others. Furthermore, the United States faces increasing competition from other states, most notably China, for scarce resources.

Yet, as discussed above, the incomplete and sometimes haphazard implementation of the reforms under the guise of the Washington Consensus generated disparate results. When successful, these reforms promoted macroeconomic stability, external trade and economic growth. Undoubtedly, these events, if shared across Latin America, would have positively influenced regional stability. While these arguments echo those of the capitalist peace theory, which enjoys broad consensus in the literature, critics suggest that the reforms of the Washington Consensus (as well as the capitalist peace theory) are overly broad and lack applicability. Setting this discussion aside, the

[14] See for example, Economist (2006).

proponents of the Washington Consensus undoubtedly couched their arguments in terms of benefits to Latin American countries, even though successful implementation would have promoted U.S. national security interests.

A Left Turn or Stay the Course?

Latin American public opinion of the United States has become increasingly negative over the past decade. The U.S. occupation of Iraq has undoubtedly negatively influenced public opinion in that only 9% of Chilean respondents support U.S. actions in Iraq even though 61% have a favorable opinion of the United States (Latinobarómetro, 2004).[15] Yet, the declines in the public perception were well underway prior to 2003 (Latinobarómetro, 2005) and actually show signs of improvement, although not to the levels of the 1990s (Latinobarómetro, 2006). If anything, the negative perception of the United States has hampered the efforts at improving economic cooperation and regional security.

The stalled Free Trade Area of the Americas (FTAA) negotiations is one example of deteriorating support for neoliberal economic policies among many Latin American countries. Many countries argued that the refusal of the United States to discuss reductions in agricultural subsidies was hypocritical given the promotion of policies to liberalize the external sectors of Latin American economies over the previous two decades. Combined with U.S. insistence that countries sign an Article 98 waiver to the International Criminal Court to receive U.S. military assistance, these actions suggest a deepening distrust of U.S. policy objectives in Latin America.

Whether or not the Washington Consensus' neoliberal reforms contributed to the perception of a Latin American environment hostile to U.S. interests, however, remains unanswered. If the reforms indeed impacted Latin American perception, we should observe declining public support for the core tenants of neoliberalism: reducing the state's role in the economy, improving economic efficiency and promoting inter- and intra-regional trade. If, on the other hand, we observe sustained support for these reforms, we should question the argument that neoliberalism negatively influenced public opinion in Latin America and U.S. national security.

What is striking is that the majority of respondents in the most current regional survey believe that a market economy is the only system by which their country can further develop. Even in Argentina, which is often touted as a symbol of the failures of neoliberalism, over 50% of respondents responded positively to the question of whether a market system was the only method of growing economically (Latinobarómetro, 2006). This result is quite striking given the disparate results of economic reform in Latin America and suggests a strong basis for further reforms in these countries.

[15] In comparison, 3% of Argentines, 10% of Brazilians, 23% of Venezuelans support U.S. action in Iraq even though 31%, 50% and 55%, respectively, have a favorable opinion of the United States (Latinobarómetro, 2004).

What about privatization? Privatization has provoked violent protests and re-nationalization in some countries, therefore, one might conclude that further privatization would be almost impossible. While support among respondents has not achieved levels of the late 1990s, the perception of privatization's benefits has increased year-on-year since 2003 (Latinobarómetro, 2006). We argue that if privatization's benefits become apparent, relative to the initial costs, support for privatization will continue to increase over time. Sustained reform is necessary to address the aforementioned issued of concentrated costs and diffuse benefits.

What could account for the poor economic performance of many Latin American countries? We argue that the neoliberal reforms correctly targeted the role of the state, not only in terms of improving economic efficiency, but also in reducing the rents available from corruption. According to Transparency International, more than 11 Latin American and Caribbean countries (to include Argentina, Bolivia, Ecuador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay, and Venezuela) have rampant corruption (Transparency International, 2006). Considering that corruption acts as an informal tax on the economy, distorts public decision-making, misallocates resources, and creates incentives for weakening the state's capacity, it is unsurprising that these countries have performed relatively poorly over the last decade.

Predictably, the Latin American nations with the highest perceived corruption are also those ranked lowest in terms of economic freedom (Heritage Foundation, 2006). We calculate a 71% correlation between perceived corruption and lack of economic freedom for countries in Latin America, suggesting that neoliberalism can not only improve technical efficiency, but through the reduction of statism, rent-seeking behavior on the part of public officials. Corruption, statism, and poverty appear to go hand-in-hand, suggesting that neoliberalism was the cure not the symptom of the disease plaguing these economies in the 1990s.

National Security and the Washington Consensus

The continued march towards socialism in Venezuela and the election of leftist governments in Bolivia, Ecuador, and most recently, Nicaragua, raises the question whether Latin America is turning away from the 1990s liberal economic reforms. What we observe, however, is a distinct disconnect between government officials' language and citizens' preferences for market-based reforms. Countries capable of sustaining reform efforts have lowered the number of citizens in poverty, increased regional and global trade volumes, and increased incomes. Despite the fact that inequalities in income and wealth remain, the 1990s neoliberal reforms appear to have reinforced the emergence of democratic governance and regional stability.

If we accept the empirical and survey evidence, discussed above on neoliberal reforms' influence, then we must question whether sufficient grounds exist to abandon the Washington Consensus' recommendations. Latin American countries consistently rank the United States as their 'best friend.' The negative impact of the war in Iraq on public opinion is likely to wane over time. If improved economic conditions in Latin

America strengthen U.S. national security, then we argue that U.S. foreign policy should seek to reinvigorate, where necessary, the Latin American reform process.

The rationale for this approach is straightforward. U.S and Latin American goals in terms of improving economic governance, primarily through a reduction in statism and corruption, are congruent. As noted in the literature, there is a clear linkage between economic development and democratic governance, suggesting that improvements in economic governance lead to gains in democratic governance, which further enhances regional security. As economic and democratic governance improve, risk premiums are likely to fall, leading to an increase in foreign direct investment, reinforcing the virtuous cycle of development. Fostering such a cycle is in the direct interests of the United States as it imports a significant amount of natural gas and oil from Latin America.

One question remaining is whether President Hugo Chavez is a direct threat to U.S. national security given his attempts to limit U.S. influence in Latin America. While Chavez is undoubtedly using earnings from Venezuela's energy exports to fund his diplomatic efforts, we must recognize that the United States is the primary market for these same exports. Due to the relatively high sulfur content of Venezuelan oil and the lack of alternative refineries, Venezuela is in a precarious position of attempting to thwart U.S. policies without sufficiently raising the ire of U.S. policymakers to the point where Venezuelan energy imports are curtailed significantly.

A potential concern, however, is whether Chavez's policies will impact the long-term health of the Venezuelan economy, and, in turn, the economies of its neighbors. The drive towards centralization and nationalization has already led to significant volatility (if not outright decline) in foreign direct investment (FDI) and jeopardized the prospects of the non-oil sector.[16] If these policies continue, our concern is that Venezuela will return to the economic malaise of the 1980s and 1990s. We do observe, however, that countries are willing to accept President Chavez's money without adopting his policies. Peru, for example, recently signed a bi-lateral free trade agreement with the United States, which could potentially spur other countries to move bi-laterally rather than await the outcome of the stalled Free Trade Area of the Americas (FTAA) negotiations.

Contrary to the popular arguments on neoliberalism's impact in Latin America, we conclude that the Washington Consensus was as successful as possible, given the existing constraints of weak institutional capacity, corruption, and haphazard implementation. U.S. national security benefited from the improvements in income and regional stability. The remaining task is clear: build upon the foundation for reform developed in the 1990s. The failure to do so may yield the United States' role in Latin America to another rising power.

[16] In the five years before Chavez took power (1993-1998) FDI net inflows averaged 3.73% of GDP. Since then, the average FDI net inflows have declined to 2.48% of GDP (1999-2005) (World Bank, 2006). Other sources suggest that FDI has continued to decline in 2006-2007. See, for example, El Universal (2007, November 20). Interestingly, 2006 net FDI was -2.63 billion US (BoP, current US$), significantly greater than the net outflow of FDI of -244 million US (BoP, current US$) in response to the 2002 coup (World Bank, 2006).

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