

## **Introductory Latin America and the Washington Consensus**

**Introductory remarks by Domingo F. Cavallo<sup>1</sup>  
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I am a practical man. I do have an analytic side, but mostly when I analyze things, I bear in mind how to put ideas into action. I never pretended to be a social philosopher, not even an economics theorist. On the contrary, I intended to be a statesman serving his country and his people.

I received college and post-graduate education first at Córdoba National University and then at Harvard. At those schools I read social philosophers and studied economic theory. Those schools provided me with the analytical tools needed to pursue a career as a researcher. I founded the “IERAL” –Institute for the Study of the Argentine Reality– as part of the “Fundación Mediterránea”, and became its Director in 1977. From that position, from 1977 to 1987 I had the opportunity to conduct research on Argentina’s political, economic and social reality.

At the IERAL, I organized and conducted a committed research team, which sought to analyze and comprehend Argentina’s reality using not only economic tools but also historical, geographical and sociological perspectives.

Our research had a very practical focus. We wanted to find solutions to the problems Argentina and the Argentines were facing.

From 1987 to 2001 I developed an intense political activity. I was elected twice to the House of Representatives. In the House, I served as Cordoba Representative from 1987-1989, and as Buenos Aires Representative, from 1997-2001. I was appointed Minister of Foreign Affairs in July 1989. I served in that position until January 1991, when I was appointed Minister of Economy. I served as Minister of Economy twice, from January 1991 to August 1996 and from March to December 2001.

I am not afraid to say that I was the most influential person, and at some moments, also the most powerful in relation to foster the economic reforms that my country went through at that time.

I was highly praised, almost to the exaggeration, by both the national and foreign media, which pictured me as the architect of Argentina’s economic stability and growth. First almost deified, I ended up being demonized, when around 2002 New Year’s Eve the Argentine economy imploded.

I tenaciously fought corruption and the mafias entrenched in the government structure. They counterattacked convincing a justice to incarcerate me.

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With no political power, no job and no money I decided to temporarily settle down in the United States, where due to different reasons live my three children. Both NYU in 2002/2003 and Harvard this academic year offered me the perfect environment for reflection after so many battles: a kind of “warrior’s rest.” These last two years I could read and re-read what social philosophers and economic theorist have written the last fifteen years. A period in my life, when due to a hectic way of living, I could only get informed of their views and work through newspaper’s comments or direct conversations, when I had the chance to meet them. Naturally, my focus was to read their interpretation and theories on recent Latin America and Argentina’s history.

Two trends in the economic thinking interest and also worry me the most. The first refers to Latin America, the second to Argentina in particular.

In relation to Latin America, it is widely said and written that from 1985 to 2001 most of Latin American Administrations decided to implement a set of economic reforms imposed by multilateral organizations and the US Administration, which are usually referred to as the “Washington Consensus.” Furthermore, those reforms are blamed as the cause of both the increase in inequality and poverty, and the financial crisis that hit the region since the mid 1990s.

In relation to Argentina, the interpretations that I am referring to are rather simple and seem to be in accordance to standard economic theory. The argument goes, the stabilization plan in place based on the exchange rate as an anchor ended up causing an extreme overvaluation of the Peso which in turn negatively affected the competitiveness of the exports and led to monetary, financial and debt crisis at the same time. Furthermore, it is considered that the economic agents had largely foreseen those crises, and only the Argentine government had been unable to see them coming and stubbornly tried to avoid the devaluation and the default at the beginning of 2001.

I find those opinions quite unsettling on several respects. On the one hand, it worries me that they picture Latin America and Argentina of the 1990s as governed by puppet governments controlled by Washington, some of them even so pusillanimous that were unable to see coming what the markets and economic academia considered an obvious outcome. On the other hand, I find also worrisome the natural conclusion they come up with. In this case, the argument would be that now, that most of Latin American governments are undoing the reforms of the 1990s, the region’s problems will finally find a solution and that it will be possible to maintain price stability without resorting to foreign capital.

I am convinced that both views are wrong and that Latin America’s political leaders should not follow them unless they wanted to risk the reappearance of the economic maladies that plagued the region in the 1980s and Argentina during four decades until the early 1990s.

My reading of what happened in Latin America since the mid 80’s runs as follow: there was Washington support for the Latin American Consensus that emerged since the Bolivian Reform in the mid 80’s and the Chilean Experience of the 70’s and 80’s. The support from Washington started to disappear since the concerns on the Moral Hazard implications of US involvement in financial crisis management became the prevalent view in the US Administration. The problems of increasing poverty and financial crisis,

for which the reforms are normally blamed, were indeed the consequence of the discontinuity of the reform efforts and the weakening of Washington support. Reversing the reforms will make matters worse but unfortunately, not only has the support from Washington disappeared, but also the Latin American Consensus is broken. More than consensus what prevail in Latin America these days is a great confusion. So this is a time to turn the light on. Let's try.

Roberto Mangabeira Unger, a prestigious social philosopher, who has been proposing alternatives to the so-called "Washington Consensus" and who during the 1990s helped Latin American political leaders develop alternative public policies, has offered me the opportunity to discuss about Latin America and the "Washington Consensus." Both of us are interested in the exchange of ideas between us and also with you. We look forward to your questions and insights that surely will enrich all of us.

We sincerely hope that the course be useful and get us closer to the best possible public policy choices Latin America has in order to improve the social and economic well-being of its people.