**The Consequences of the Washington Consensus over the Argentinian Economy**

**Why did the Washington Consensus fail in Argentina?**

Many economic professionals believe that the Washington Consensus was the primary cause of the economic crisis of 1999-2002. It is important to consider that this reform package was considered a “one size fits all” resolution for nations with diverse governments and economic needs, which lead to a series of causes for its failure. While the plan was sufficient for monetary organizations within the United States for macroeconomic stabilization, improving trade and investment, and the expansion of market forces within the domestic economy, the stark differences between the status of the American government’s standing and the Argentinean government’s standing contributed to varying results for the two nations.

Specifically, as the Washington Consensus pertained to Argentina, its recommendations were too simple and incomplete, insufficient attention was paid to equity and poverty issues as preconditions for sustainable growth, and privatization was not adequate (Sachs et al. 1). Furthermore, it would have been important for economists to consider that Latin American economies are interdependent but have independent policy-making processes, which complicates the implementation of macroeconomic policy coordination. Additional consideration should have been the strength of labor unions since if the unions are dissatisfied with a policy, they have enough power to compromise it at any time.

The Washington Consensus puts forth ten policy recommendations that nations are required to follow (Soros 1). However, it is important to consider these policies are not unique economic concepts and have been implemented by the Argentinean government to bolster the nation’s economy in the past. The first recommendation, fiscal policy discipline, is easy to reform on paper, but difficult to achieve in practice. It is difficult for countries with high levels of debt to recover quickly without assistance from loans to initiate new programs (Lopes 2). When Argentina’s public debt reached $101 million in 1997, there was an immediate cause for concern and policymakers recognized that immediate action needed to be taken. After implementing this policy recommendation, this debt grew to $132 million in June 2001 (Lischinsky 84). One could argue that the effect was observed because the policy was too broad. If a specific order and list of recommendations had been provided with a greater degree of detail, it is likely that the Argentinean economy would not have suffered losses to this extent.

A major difference between the American and Argentinean governments is that the American government implements a proportionately smaller number of social and welfare programs (Lustig et al.1). Therefore, it may not be necessary for the United States and nations with a similar economic policy to consider equity and poverty issues as preconditions for sustainable growth, but after implementing the Washington Consensus, it became apparent that such recommendations were not well thought out. Economists now argue that macroeconomic stabilization has an extremely negative impact on poverty levels in a variety of nations. For Argentina, reducing budget deficit, therefore, required the introduction of expenditure cuts, which required the implementation of out of pocket costs for health and education that had previously been free in addition to cuts in industrial protection. While these actions were meant to protect the nation’s economy, in actuality they resulted in a high unemployment rate, a rise in poverty, and income disparity. Therefore, these actions created greater economic instability, and these very actions had been criticized by professionals for decades (Cornia et al. 1).

A third consideration that should have been made by economists is whether the privatization of state enterprises is a resolution for all nations in crisis. While this has served as a useful way to cut spending in the United States, this experience has demonstrated that it also leads to an increase in corruption and concentration of wealth. Therefore, this consequence should have been anticipated by Argentinean lawmakers. As a marker for income disparity, professionals have divided the income of the richest 20% of the nation and divided this value by the income of the poorest 20% of the nation. Thus, larger numbers are representative of a greater disparity. As of 2013, this ratio was 16.0 for the United States and 14.2 for Argentina (Huffington Post 1). This ratio has increased significantly since the implementation of the Washington Consensus. Bordering countries such as Uruguay currently only have a ratio of 8.0. A similar value would be expected for Argentina if it had not participated in this economic plan.

A major criticism of the implementation of the Washington Consensus is that many of the policies that it lists will help ensure growth during periods of time in which growth is already established. Individuals believed that the same economic principles could be applied to slow down the economic decline, although experience has demonstrated that this is not the case. Some economists claim that the Argentinean labor laws were too flexible to allow for job creation during a time of economic decline, which worked to increase the income disparity (Frers 3). Again, this differs from regulations set in place by the American government that provides an incentive for job creation during these times. Therefore, it was necessary for economists to more closely analyze economic recommendations in terms of the individual economy that is in need of support. A related concept is that many Argentinean labor unions have the ability to overturn economic decisions in their practice, provided that they believe it will protect their workers. Therefore, it was impossible to ensure that all employers would be implementing these recommendations across the board, which contributed to minimal efficacy.

Ultimately, when implementing economic reform, it is imperative for lawmakers to conduct a thorough analysis of the policies that they recommend. No one recommendation is sufficient for every nation in the world’s economy due to a different economic and political standing. Nations that are in economic peril find themselves in these situations for very distinct reasons, and we cannot, therefore, assume any similarities between them initially. It is, therefore, necessary to perform a careful study of laws, facts, and figures in order to draw relationships between economic recommendations that have worked for one country in practice and the potential for these same policies to be effective in another nation. Therefore, the Washington Consensus should be redrafted to adhere to these needs.

Modification of Economic Policy in Modern Argentina

After the Washington Consensus was recognized as the cause for the Argentinean economic collapse, an effort was taken to reverse these economic policies in a manner that would support the country’s restoration. Ultimately, economic professionals found that liberalizations should be done gradually and cautiously until regulatory and supervision capacities are strong. In addition, a consensus formed stating that there is a need to tax the rich and spend better on the poor. Despite the nation’s recognition that action must be taken in order to, there are still some aspects of its economy that are reminiscent of the Washington Consensus.

As of December 2006, Argentina was able to pay its debt in full to the International Monetary Fund. However, the monetary reserves were stored in American dollars that required purchase using freshly issued pesos, which risked inflation and would not have been advisable under the Washington Consensus (Maute 1). After some time, the government had recognized that their currency issue was controlled by a sharp increase in imports and the return of foreign investment after restructuring debt. As a consequence, the government established controls and restrictions with the intention to keep short-term speculative investment from destabilizing financial markets (Graham-Yoll 1).

Although politicians formed a consensus stating that there is a need to tax the rich and spend better on the poor, Argentina has been unable to resolve the wealth disparity despite its ability to reduce the unemployment rate to 7%. At the end of the economic depression in 2002, the richest 10% held 40% of all income, while the poorest 10% held 1.1% of all income. As of 2013, however, the richest 10% held 27.6% of income, while the poorest 10% held 2% of all income. Even though the difference between the two social classes remains great, there has been some degree of improvement over the last decade (The World Bank 1).

Despite improvements, Argentina is still trapped within some of the financial decisions it made between 1999 and 2002. In July 2014, for example, a New York judge ordered Argentina to pay hedge funds the full interest on bonds they swapped at a discount rate during 2002 (Eavis 1). While the outcome of this order still has not been decided, the Argentinean government is currently arguing that this action would render the country insolvent and cause a second debt default and potentially restore its economy to what it had been as a consequence of the Washington Consensus.

It is clear that while Argentina has gone a long way since the economic depression, it has still not completely recovered from the economic policies dictated by the Washington Consensus. Unfortunately, this economic policy would have been more ideal for other nations in financial stress and did little to consider the root causes of the economic crisis in Argentina. As a consequence, many of the economic errors that were made during this time continue to impact the country today, and it is evident that the Argentinean government has not fully learned from its past mistakes. In order to avoid repeating history, it is therefore imperative for the nation to make more informed economic decisions. It must analyze the results of choices that it made in the past and determine how these same choices would impact the economy in the future. As the Argentinean economy changes, it is important to alter the economic decision-making process as well. As the country learned, economic principles are not one size fits all and this assumption must be avoided if it is to remain successful throughout its recovery.

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