Latin America:
From the “Washington” to the “Cornwall Consensus”

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Abstract. The research examines the proposals of the “Cornwall Consensus” in the context of their possible application in Latin America. The authors argue that these proposals could contribute to the development of a new economic development strategy for the post-liberal period. It is likely that the “Cornwall Consensus” proposals become dominant in shaping the global agenda on the new economic paradigm. Although it is important to mention that nowadays there also also “Beijing” and “Delhi” consensuses those are linked to the Chinese and Indian models of economic liberalization and constitute an alternative to the “Washington Consensus”. The article analyzes the effectiveness of the “Washington Consensus” adjustment mechanism, carries out a comparative analysis of the Latin American economies that pursued both liberal and statist development models. Then the article examines the main recommendations and ideas of the “Cornwall Consensus”, the prospects of adapting the Latin American region to the proposals of a new development model against the background of existing experience in implementing the recommendations of the “Washington Consensus”, its consequences and existing “post-neoliberal” alternatives. The authors conclude that, despite the adaptability of the Latin American economies, the question remains whether the proposals of the “Cornwall Consensus” can contribute to the revival of the development policy in Latin America aimed at creating a new type of “welfare state”? The study concludes that the proposals of the “Cornwall Consensus” could contribute to the formulation of a new development policy, since the “welfare state” in its Latin American version, regardless of whether “neoliberal” or “progressive”, has exhausted itself.

Key words: Latin America, Washington Consensus, Cornwall Consensus, neoliberalism, welfare state
моделей постлиберального периода. Отмечается, что в ближайшем будущем предложения «Корнуоллского консенсуса» имеют шанс стать доминирующими в формировании глобальной повестки формирования новой экономической парадигмы. Однако авторы подчеркивают, что на сегодняшний день существуют также «Лежневский» и «Делийский» консенсусы, отражающие китайскую и индийскую модели либерализации экономики. Дается оценка корректировочным механизмам, основанным на рекомендациях «Вашингтонского консенсуса», проводится сравнительный анализ эволюции экономики стран Латинской Америки, имеющих как открытый, так и этотатический характер. Рассмотрены альтернативные варианты моделей, возникших в Латинской Америке на постнеолиберальной стадии развития. Предложения «Корнуоллского консенсуса» рассматриваются с позиции их возможной применимости в Латиноамериканском регионе. Анализируются основные тезисы «Корнуоллского консенсуса» и формулируются некоторые методы адаптации Латинской Америки к предложениям нового консенсуса с учетом имеющегося у стран региона опыта реализации модели развития, предложенной в рамках «Вашингтонского консенсуса», а также его последствий и существующих альтернатив в видах построений постнеолиберального периода. Авторы приходят к выводу, что, несмотря на адаптивность латиноамериканских экономик, сохраняются сомнения по поводу того, смогут ли предложения «Корнуоллского консенсуса» способствовать реанимации политики экономического роста в регионе, направленной на формирование нового типа «государства социального благосостояния». В результате проведенного исследования авторами сделан вывод, что предложения «Корнуоллского консенсуса» могли бы способствовать выработке новой политики в области экономического развития, поскольку представляется, что «государство всеобщего благосостояния» в его латиноамериканской версии исчерпало себя.

Ключевые слова: Латинская Америка, Вашингтонский консенсус, Корнуоллский консенсус, неолиберализм, государство всеобщего благосостояния

Introduction

The “Washington Consensus” was enunciated for Latin American countries as a decalogue for policies aimed at liberalisation and macroeconomic stability, which were supposed to help resolve the fiscal deficit crisis of the 1970s and 1980s. This set of policy recommendations and policies based on them allowed regional countries to stabilize the economy and guide markets towards global competition (Williamson, 1990). However, 40 years after this agenda was launched, ambitious reforms are wearing thin and their effects are running out. The problems of rising inequality, the climate crisis, and the limited capacity of the private sector and the state to respond to pressing challenges, particularly highlighted by the pandemic, are becoming increasingly acute. The turning point that ignited discontent and frustration with the outcome of the neoliberal agenda was a dramatic decline in political support for structural reform processes in the countries of the region (Ananyin, Khaitkulov & Shestakov, 2010).

Although Latin America is comprised of different political, economic, social and cultural elements, the authors managed to identify some general points of economic policy and the importance of state interference in the functioning of the market mechanism. Regional countries followed a similar paradigm in terms of state interference, each in their own way striving to build a welfare state. The reality shows that the current model, driven in the Latin American variant by statecraft in its two versions (liberal and populist), is running its course. This suggests that the proposals of the “Cornwall Consensus” act as a new economic paradigm that could lead the global debate over the coming decades. From this perspective, there is an idea of promoting a new international social contract which could contribute to a stronger role for the state in the economy, a greater focus on social development goals, international solidarity and a restructured...
world order for the greater good, as called for by the experts in their report to the Group of Seven (G7).1

It is clear that the response of Latin American countries to new proposals (including those involving the financing structure of public spending) of the “Cornwall Consensus” vary and range from positive expectations regarding market dynamics with a meaningful state participation to expectations of the left-wingers hoping to find in the ‘state-centric’ proposals of the “Cornwall Consensus” a new banner of political struggle.

Latin America’s development choices are significantly influenced by numerous non-Western theories, mainly rooted in Neo-Marxist paradigm (Klein & Morreo, 2019). A variety of these theories is provided in the work of D.A. Degterev, who points out that the prospect of laying out truly national approaches to development problems is limited in the non-Western countries to the point where even such a critic of post-developmentalism as Arturo Escobar “draws attention to the monopolization by Western discourse of the very concepts of development and development theory” (Degterev, 2021, p. 119). Such alternative (or socialist) models, implemented in the region under the influence of the left-wingers made it clear that Latin America’s welfare systems remain captive to endemic structural failures that those progressive leaders are unable to overcome, even despite the increased role of the state. Therefore, the problems of poverty, inequality, unemployment, corruption, etc. have not been resolved. In other words, this option “while first associated with the euphoria of success, in most scenarios didn’t yield any tangible results, and the leaders of this trend were captured by political confrontation and succumbed to the temptation of getting quick administrative solutions with an emphasis on statecraft” (Davydov, 2016, pp. 40—41).

This raises the question of whether the proposals of the “Cornwall Consensus” can contribute to the creation of a new development model for Latin America, a model that will bet on a new type of “welfare state” as opposed to the outdated neoliberal concept.

The authors provide a comparative analysis of the “Washington Consensus” model adopted by most Latin American countries, and its degree of adaptability to the new proposals of the “Cornwall Consensus” through a detailed observation of historical correlations between the development of the consensus with the potential of the countries of the region, including with the structural preparation of the latter for the model-related transition.

**Theoretical Approaches of the New Liberalism**

With the growing realization of the exhaustion of opportunities for effective use of the Keynesian model of economic regulation and social security, global capitalism came to understanding the need to change it and set out to generally reorganize the capitalist system as a whole in accordance with liberal principles redefine for the new historical period of capitalism. The new liberalism was an absolutely hegemonic model that managed to spread in the most universal way: from Western Europe to the USA, from Latin America to China, from Eastern Europe to Africa. Despite the local crises of neo-liberal policies in the 1990s (in Mexico, Southeast Asia, Russia, Brazil and Argentina), in the absence of any alternative project, this model maintained its hegemony.2

Adherents of neo-liberalism opposed Keynesian economic policies that gave the state a key role in overcoming crises or recessions. Thus, the Austrian economist F. A. von Hayek argued that state economic planning leads to

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totalitarianism (Hayek, 2005, p. 103). However, neo-liberalism does not appear to be a single doctrine. It comprises a number of schools such as the Austrian School of F. A. von Hayek and Ludwig von Mises, the Chicago School of Milton Friedman, and the Virginia School of James Buchanan, with significant differences between them, for example, in formulating the monetary policy. In accordance with neo-liberal recommendations, economic activity should be carried out mainly by the private sector while limiting state participation in economic process, reducing its share in GDP generation, removing constraints and rules in economic activity and opening borders to goods. However, this economic model also implies higher interest rates and consumption taxes, lower taxes on production, trade liberalization and deregulation, and greater mobility of capital and labour. Hence, it is the private sector that is responsible for the creation of wealth.3

For decades, quite a number of economists and theoreticians have criticized the basic postulates of neo-liberalism and the policies it promotes. For the most part, they have pointed that the consequences of this policy will primarily affect the state’s ability to implement critical social programs. This problem is clearly visible in the present era. In this regard, Gary Gereffi noted back in 2014 that “public governance was called upon to play a stronger role in supplementing and reinforcing corporate codes of conduct, process standards and other voluntary, non-governmental types of private governance that have proliferated in the last two decades,” and that inspired “multi-stakeholder initiatives involving both public and private actors to deal with collective action problems” (Gereffi, 2014, p. 29).

Thus, the basic premise of neo-liberalism as an alternative to Keynesianism involves aiming for unimpeded trade without state intervention, but with a regulatory central bank.

**Adjustment Policy in Latin America and the “Washington Consensus”**

Since their independence in the 19th century, most Latin American countries have adhered to the ideals of creating a free and open market. However, from the 1920s to the 1980s, the growth policy was contingent on significant state intervention in market dynamics. It acted either as a direct participant or a regulator. This policy was rooted in an effort to protect local manufacturers from foreign competition and adequately regulate the domestic market. As from that stage, the general paradigm of almost all countries in the region manifested itself in the monopoly of state-owned enterprises, control over prices, and protectionist measures and unworkable state regulation. All this led to the conservation of highly-indebted obsolete industries with poor management, and the 1980s were referred to as the “lost decade.”4

These developments inspired the US-based British economist John Williamson to draw up his recommendations for the region in order to get help from financial institutions based in Washington. The “Washington Consensus” in Latin America was largely facilitated by the so-called “Chilean miracle.”5 Although it is problematic to pin down the exact time when the neo-liberal period started in Latin America

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3 Lissardy G. Qué es el neoliberalismo, quién lo impulsó y por qué algunos niegan que existe // BBC News Mundo. 26.11.2021. URL: https://es.noticias.yahoo.com/neoliberalismo-impuls%C3%B3-niegan-121253072.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAANhgQ6zmMGJUpBr6Fr7aAKkN0rGjJsVoJo8J5aT5FJiS4YiZHP0E1qPLqolLnon0u_t6Wona6byXf3bL5jvJVVHTKva80VbV1eKXYEMkKh5iNjS5j30mbwygYdu1dQVRazCBFYYnDB29220wY8_788_qp4q5KwwhGW8b-w7df (accessed: 30.10.2021).


and most Latin American countries began to adopt Chilean miracle growth stimulus measures with the support of Washington-based international financial institutions.

Set out by John Williamson in 1989, the economic reform program that has come to be known as the Washington Consensus included three basic postulates:

1) minimizing state intervention;
2) complete openness of the economy to attract foreign investment;
3) distribution due to the side effect of wealth achieved by successful business owners.  

The Washington Consensus comprises a well-known set of ten recommendations for heavily indebted Latin American countries and epitomizes a series of market measures that formed the basis for the economic policies of most Latin American governments in the 1990s (Williamson, 1990). This both predetermined the change of state participation rate and led to a pendulum shift from interventionism to a period when the state was largely absent from the markets. Notably, the change was made without any transition period.

In real life, in most Latin American countries these recommendations were applied and interpreted with significant diversity and extreme inconsistency. Therefore, by the end of the 20th century, the population’s disappointment in the model of development of the region and in the distribution of wealth increased resulting in the feeling of failure of the Washington Consensus policy (Stiglitz, 1998). Since then, the ways different countries implement their alternative models vary considerably in each particular case. Although the common pattern noted in anti-neoliberalism can be found in rhetoric, there is no uniformity in real life in this regard.

One of these alternatives to the “Washington Consensus” was the so-called “Beijing Consensus” which basically refers to the Chinese development model largely analyzed by foreign and Russian sinologists (Bazhenova, 2009; Berger, 2009; Gelbras, 2009; Vinogradov et al., 2018). Back in 2004, Joshua Cooper Ramo suggested the idea of the “Beijing Consensus” as an optional historically significant alternative to the “Washington Consensus” while citing the attractiveness of the Chinese experience of modernization, which took into account the interests of the main body of the population and managed to avoid high societal costs (Ramo, 2004). From Ramo’s perspective, the “Beijing Consensus” is a model that enables a developing country to take a rightful place in the world (Vinogradov et al., 2018, p.19). Even though a number of authors considered the “Beijing Consensus” to be an alternative to the Western formula as a result of criticism of neoliberalism and the uncovered issues in the implementation of the American development model (Borokh & Lomanov, 2005), some experts characterized both models as neo-liberal (Lopatina, 2010). In 2010, the Chinese economist Yu Wenlie drew attention to the neo-liberal roots of the Chinese model, stressing that “the neoliberal transformation of the Communist Party-led state has led to exacerbation of socio-economic problems in the PRC” (Ren, 2010, p. 113). Thus, for many researchers, the opposition between the Beijing and the “Washington Consensus” has been somewhat to a certain extent relative: the “Beijing Consensus” is a supplement to the “Washington Consensus,” which defines the requirements for the functioning of the market economy system, while the “Beijing Consensus” places greater emphasis on institution building (Vinogradov et al., 2018, p. 21).

Another alternative to the “Washington Consensus” is the “Delhi Consensus,” namely the Indian model of economic liberalization. According to N. V. Galishcheva, India’s action plan to transform the national economic system, which has been taking shape since the early
1990s, is now increasingly taking the shape of a coherent economic development model. Notably, certain features of the Delhi Consensus in some degree correlate with the “Beijing Consensus.” Both models are premised on borrowing and implementing certain liberal prescriptions of the “Washington Consensus” through the lens of national characteristic aspects in determining the pace, timing and methods of economic transformations (Galishcheva, 2014, p. 5).

Thus, the emergence and diffusion of different alternatives to the “Washington Consensus” was a consequence of its failure as a tool for addressing economic problems in most countries that followed its tenets, including in Latin America.

The “Cornwall Consensus” and the New Role of the State

The “Cornwall Consensus” can be attributed to a new economic paradigm that claims to dominate the global debate over the coming decades and which the world’s largest economies can and will adhere to.

While Latin America has achieved a 40-year recovery in economic growth as a result of the “Washington Consensus” recommendations, this growth has been uneven and prevailed against a backdrop of environmental challenges and the need to pursue sustainable development goals. The problems of this model were already evident during the global financial crisis of 2008, but more vividly in 2020 with the onset of the COVID-19 pandemic, which highlighted the limits of the private and public sectors in responding to pressing economic, social and environmental challenges.7

In June 2021, the G7 summit in Cornwall was dedicated to discussing this complex situation. Independent experts seeking alternative development models published a final report entitled ‘Global Economic Resilience: Building Forward Better.’8 In October 2021, at the Group of 20 (G20) meeting, the report formed the basis for a new public-private agreement, the “Cornwall Consensus,” which proposes a pivot in the economic paradigm in order to overcome the tenets of the “Washington Consensus.”9

The G20 summit specified the following major development challenges for the foreseeable future:

1) the growing socio-economic inequality;
2) the fragility of the global economic system;
3) the climate change;
4) risks of a new public health crisis such as the COVID-19 pandemic.10

Thus, the “Cornwall Consensus” is putting recommendations on the agenda to build a more sustainable economy. This sustainability is based on seven components: health care, trade, value chains, climate change, digital economy, and investments and labor market.11

The “Cornwall Consensus” also seeks to rethink the relationship between the public and private sectors in order to create a fair and sustainable economy. It attempts to establish common lines to enhance the role of the state in solving social, environmental and healthcare problems. The consensus aims to clarify guidelines that countries will follow on a long-term horizon and which are likely to define the

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10 Ibid.
paradigm for the global economy over the coming decades.

The goals suggested by the “Cornwall Consensus” focus on renewing the “global social contract” as well as recovering after a pandemic. Unlike past state interventions, this consensus calls for a fast-paced market creation for green and knowledge-driven economies.

The seven recommendations for state intervention made by the G7 can be cited:

1) the importance of the health sector is acknowledged, where in the short term countries should guarantee equity in vaccination;

2) states need to invest more in reducing carbon emissions through industrial transformation. Investments in innovations are meant to be a way to reduce emissions rather than post factum addressing the pollution problem;

3) states are to improve digital security and fight big digital monopolies. States are also to draw out general means to address the cryptoassets issue;

4) the G7 is to seek greater openness by reducing administrative barriers that countries use for protectionist purposes. Open trade will still be crucial to implementing the economic challenges of the future;

5) in terms of investments, there is global agreement to increase public investment spending by at least 2% of national GDP;

6) however, while being acknowledged that there are losers in international markets, there is a need to move towards an approach that replaces redistribution by advance distribution. Furthermore, over the past decades, various populations have been displaced from labor markets, especially women, so states need to work to reintegrate them;

7) finally, the strengthening of global value chains and their diversification is a goal that has become evident in the wake of chip shortages and inflation caused by the recovery in demand for resources. This will strengthen global trade by ensuring the continuity of world commerce.\(^\text{12}\)

Prof. Mariana Mazzucato, Director of the University College London Institute for Innovation and Public Purpose and member of the group in charge of the report, raises the question about the need to abandon the “Washington Consensus” which has dominated the world economic stage for the past five decades and which has been assailed even by dignitaries of central institutions of neoliberal globalization “for exacerbating inequality and perpetuating the subordination of the countries of the global South to the countries of the North.”\(^\text{13}\)

Certain major aspects of the “Cornwall Consensus” report focus on public spending. It is stated that spending shall be determined in conjunction with the goals of achieving global sustainability. Furthermore, it is argued that international institutions such as the IMF should change credit conditions to include these sustainability terms.\(^\text{14}\)

The “Cornwall Consensus” also suggests a reactive correction of market failures, seeks to modify and create market structures for the spread of the green economy which would lead to the replacement of redistribution with pre-distribution. Under these conditions, state will coordinate partnering relationships between the public and private sectors in order to create a stable, sustainable and fair economy.\(^\text{15}\)

The three highest-priority recommendations of the report relate to the COVID-19 pandemic,


\(^\text{14}\) Un informe del G7 alerta de “retos sistemicos” en la economia global // Swissinfo.ch. 12.10.2021. URL: https://www.swissinfo.ch/spa/g7-econom%C3%ADa-un-informe-del-g7-alerta-de-retos-sist%C3%A9micos--en-la-econom%C3%ADa-global/47023058 (accessed: 30.10.2021).

post-pandemic economic recovery and climate change.\textsuperscript{16}

As for the post-pandemic economic recovery, it is argued that major public investments are required to restore the economy (bearing in mind the recommendation of economist N. Stern to increase these spending for developed countries up to 2\% of GDP per year), which will amount to about USD 1 trillion annually.\textsuperscript{17}

The document addresses the need for good governance with the richest countries assuming major responsibility for financing a number of key aspects, including knowledge creation, while recognizing that they are contingent on social creativity.\textsuperscript{18}

On the one hand, the new consensus declares the need to increase the number and quality of public investments and international lending as compared to pre-pandemic levels in order to develop infrastructure, improve the efficiency of healthcare and the business sector affected by the pandemic. The priority of long-term value creation, social policy and the environment, intensifying the economic role of the state in ensuring industrial transformation and reducing carbon dioxide emissions is also proclaimed.\textsuperscript{19}

On the other hand, the emphasis is placed on pushing for changes to the international tax system to eradicate tax havens, improve digital competition and establish a global rate for corporations and tech giants (such as Amazon and Meta\textsuperscript{20}) for the purpose of their taxation in the markets where they sell their products or services.\textsuperscript{21}

Of course, the emerging consensus differs from the “Washington Consensus” above all in that it does not see globalization as an inevitably positive force, which with the opening of markets, finance and increased availability of goods and services, contributes to inclusive prosperity and stability.

By and large, undoubtedly, the recommendations of the “Cornwall Consensus” may serve as the basis for building a new global consensus, a political agenda to govern a new economic paradigm that is already beginning to take shape. But even so, as Russian Latin Americanists point out, “a significant factor in the wider access of the LAC (Latin America and the Caribbean. — Author’s note.) to the mechanisms of global regulation may be drawing up of an enforceable and internationally attractive \textit{Latin American Project}, a strategy for the socio-economic breakthrough” (Davydov, 2022, p. 430).

\textbf{The “Washington Consensus” Policy: Some Implications}

In the first decade of the new century, there were many signs pointing to a certain exhaustion of the cycle of transformations of the economic model within the framework of the neo-liberal paradigm. However, the rejection of the recommendations of the Washington Consensus and the search for alternatives to neo-liberalism were not the same for countries in the region.

\textsuperscript{16} Un informe del G7 alerta de “retos sistemicos” en la economía global // Swissinfo.ch. 12.10.2021. URL: https://www.swissinfo.ch/spa/g7-econom%C3%ADa-un-informe-del-g7-alerta-de--retos-sist%C3%A9micos--en-la-econom%C3%ADa-global/47023058 (accessed: 30.10.2021).


\textsuperscript{18} Un informe del G7 alerta de “retos sistemicos” en la economía global // Swissinfo.ch. 12.10.2021. URL: https://www.swissinfo.ch/spa/g7-econom%C3%ADa-un-informe-del-g7-alerta-de--retos-sist%C3%A9micos--en-la-econom%C3%ADa-global/47023058 (accessed: 30.10.2021).

\textsuperscript{19} Ibid.

\textsuperscript{20} On March 21, 2022, the Tverskoy District Court of Moscow satisfied a lawsuit filed by the Prosecutor General’s Office of the Russian Federation and recognized the activity of the social networks Instagram and Facebook, owned by Meta, as extremist, banning its operation in Russia.

\textsuperscript{21} Un informe del G7 alerta de “retos sistemicos” en la economía global // Swissinfo.ch. 12.10.2021. URL: https://www.swissinfo.ch/spa/g7-econom%C3%ADa-un-informe-del-g7-alerta-de--retos-sist%C3%A9micos--en-la-econom%C3%ADa-global/47023058 (accessed: 30.10.2021).
On the one hand, since the reforms of the 1990s, most countries developed a modernized economy. Foreign direct investments were massive and went hand in hand with managerial know-how in some key sectors of the economy, which made it possible to significantly raise the technological level of the countries of the region. Almost everywhere there was an expansion of public services and the construction of infrastructure that made communication between states more effective by expanding the boundaries of production capabilities.

Some of the Latin American countries, despite the consequences of the 1995 “Tequila crisis,” the 1997 Asian crisis, the 1998 Russian default, the 1999 Brazil devaluation, the North-American depressions and the 2001 Argentina crisis, still followed the neo-liberal path with generally positive results. Countries like Colombia, Peru, Uruguay, Mexico and Chile have avoided recession and redoubled their efforts to raise capital as a basis for their industrial development, while keeping certain traditionally public services privatized. For example, according to ECLAC, the volume of foreign direct investments in these countries between 2001 and 2016 amounted to USD 98.374 billion in Colombia, USD 84.878 billion in Peru, USD 23.146 billion in Uruguay, USD 311.207 billion in Mexico. However, the countries of the so-called “socialism of the 21st century” received significantly lower investments: Bolivia received USD 8.899 billion, Venezuela — USD 16.401 billion and Ecuador — USD 10.291 billion.

On the other hand, in countries such as Argentina, Bolivia, Venezuela or Ecuador, the model described as neo-liberal failed to yield positive results, and they opted for other models that led to a significant adjustment of the Washington course. These four countries, often called anti-liberal and socialist, established closer relations within the group, opted for a ‘domestic development model,’ and while pursuing a path of import substitution adopted a raft of legislation providing for significant amounts of subsidies, which in the previous model were limited in scope.

Affected by high raw material prices, three countries — Venezuela, Bolivia and Ecuador launched measures to restore their economic functions. The emerging model of these countries is based on a compensatory mechanism supported by high commodity prices. As Pablo Stefanoni notes, “With certain country-wise differences, this mechanism, however, made it possible to apply similar anti-cyclical policies against the backdrop of an international crisis all while deploying various social programs.”

Thus, the current model prevailing in these three countries may be defined as “a combination of extractivism — with major government involvement, through the processes of nationalization and democratization in the distribution of raw materials through a more or less institutionalized social policy striving for versatility” (Draibe & Riesco, 2009, p. 30).

When comparing the two alternative development paths described above, the results for the countries that followed the neo-liberal course and those that abandoned it seem to be similar. Nevertheless, measures to promote their economies into world markets in those countries that follow the neo-liberal course appear insufficient. This sloth-like pace hinders better economic performance and boosting employment, but at least the first steps on that front may already be evident (Draibe & Riesco, 2009). The experience of many countries shows that negative trends have intensified under the neo-liberal strategy when states abandon it.
intervention in the economy to ensure development. Moreover, under neoliberalism, a number of aspects have been observed in the region that together reflect the new configurations representative of today’s Latin American societies, i.e.:

- the creation of a quite positive environment for companies and especially for foreign investors and some internal instability in economies linked to debt position;
- increased dependence on external financial flows and unexceptionally low-key growth rates in many countries;
- the spread of a modern lifestyle and differential social services aimed almost exclusively at the emerging middle and upper classes;
- the formation of values towards the state, economy, freedom, social justice and more benevolent relations between the state, economy and individuals (Davydov, 2016).

No one knows exactly what the Latin American version of neo-liberalism is. However, despite some positive outcome, it is widely believed to have failed. This failure is usually associated in intellectual circles with the departure from dogmas and theoretical postulates of the “Washington Consensus” related to some authors of the Austrian and Chicago schools, especially Ludwig von Mises, F.A. von Hayek or Milton Friedman. In fact, the ideas defended by these authors have little or nothing to do with the economic policies of those countries that consider economic liberalism to be the culprit of failure of their economic policies.

There is no doubt that the “Washington Consensus” was generally criticized mainly for the fact that the policies based thereon failed to ensure fair economic growth in the region and led to high levels of poverty and socio-economic inequality (Stiglitz, 1998; 2003; 2008). However, very few of the negative results of the policy proposed by the “Washington Consensus” are accounted for by their original concept, this refers more to their truncated implementation if not to their complete abandoning. In fact, the structural factors of Latin American economies, such as corruption, excessive government spending, recurrent budget shortfalls, debt, lack of transparency, and lack of democratic governance and effective separation of powers, do not appear to be consistent with the orthodoxy of liberalism.25

In assessing the outcomes of the “Washington Consensus,” the problem is that, after nearly 40 years of applying the policy recommendations and using its instruments, it can be concluded that countries, that have systematically applied the suggested measures, such as Colombia, Peru and Chile, have grown faster than others due to stability and a sensible poverty alleviation. By contrast, those who rejected the course, like Venezuela and Argentina, are still far from overcoming poverty. What is at stake here is the application of the “Washington Consensus” recommendations and their economic effects in addressing structural poverty. Countries that applied some of these measures have had more sustained results in addressing structural poverty. By contrast, the socialist countries have focused on addressing poverty through subsidies and transfers propped up by revenues from raw materials. In these countries, poverty was in fact temporarily reduced by redistributing of high income from the export of raw materials among the population. In other words, poverty caused by corrupt politicians, poorly performing national governments, budget shortfall, financial crises, and other similar phenomena is not a consequence of liberal economic policies.26

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It seems clear that in Latin America it is not the economic policies (neo-liberal or progressive) that are to blame for the lethargy of economic and social development in recent decades. The reality is that the welfare state in the Latin American version, driven by statism in its two versions, has failed and is coming to an end. Over the last three decades of its development, and especially in the 21st century, all Latin American countries have followed the welfare state tradition (with an emphasis on social security policy). From Mexico to Argentina, all Latin American governments, right and left, have pursued policies with an emphasis on a social approach.27

The illusion of a successful welfare state in Latin America becomes visible through the fact that public spending policies contribute to currency expansion resulting in growth of subjective well-being of the population. People consume more, but in the long run this triggers budget shortfall, since the state does not meet its obligations and is forced to apply for foreign financing, which results in an increase in public debt. And that’s in a best-case scenario. The most complicated one is in those countries where central bank is not an independent institution since the short-term solution of problems is emission which generates inflation and only complicates matters. This is, for example, the case in Venezuela.28

Then we might assume that in the short term a welfare state in Latin America is represented, regardless of the future, as follows: “Today we are alive and tomorrow whatever happens.” The duration of a welfare state depends on wealth accumulated by the country and taxes it manages to collect. However, whatever the case, a welfare state fails despite any illusion that it may initially create. Martin Rhonheimer remarks that “A wealth-consuming welfare state is also counterproductive, hindering the economy when it comes to creating more wealth... if it were not for rampant redistribution and the resulting public debt, we would all have been richer, including the poorest” (Rhonheimer, 2017, p. 51).

By contrast, the “Cornwall Consensus” calls into question the role of the state in solving economic and social issues of the countries. Latin America, despite the decades of development under the model of state capitalism, failed to create a welfare state that would allow it to solve social problems, but it also failed to yank the region out of the economic stagnation that hinders the development of the region.

Despite the novelty of the “Cornwall Consensus” goals, one has to wonder whether a new consensus is needed.

The most obvious response, in the view of proponents of the new consensus, is that the previous model (the “Washington Consensus”) no longer provides broad benefits to the population. Moreover, it turned out to be dramatically unable to respond effectively to the great economic, environmental and epidemiological challenges of our times. But the “Cornwall Consensus” proposals are ambitious ideas that imply rethinking the post-pandemic world: reducing inequality and raising taxes on major corporations (large companies are no longer considered to be free and unattached actors, but rather those corresponding with the states as part of the future economy).29

The impact of the reforms proposed by the “Cornwall Consensus” gave rise to various initiatives of different origin across the globe, including Latin America. Many of them seek to offer alternatives that would replace the liberal market policies of the “Washington Consensus” presumably suggesting the end of it. For example, based on the proposals of the

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28 Ibid.

"Cornwall Consensus," Latin American left-wing populists associated with the Puebla Group formulated a proposal called ‘The Foundations of a Solidarity Model of Development.’ Its analytical part asserts: “The region cannot return to the model it had before the pandemic. Moreover, the previous prevailing model already had crucial structural problems that should be fixed as part of the recovery process.”  

This document seeks to create a new Latin American road map representing a “solidarity model of development” with key components as follows:

1) searching for equality as a central value of development and reducing global asymmetry;
2) searching for values;
3) new economic policies those are diversified and knowledge-based;
4) an environmental transition;
5) a new democratic institutionality;
6) regional integration.

The Puebla Group’s proposal states that searching for equality should be a major development priority alongside reducing regional asymmetry. The Puebla Group’s proposal is one of numerous attempts to assert an alternative way in relation to the “Washington Consensus” model, which has been functioning for over 40 years.

Finally, the extent of the changes proposed by the “Cornwall Consensus” and the urgency of implementing the announced measures raise more questions than answers. Is this kind of consensus and declaration enough to build solidarity and reform global governance for the common good? Certainly not. However, they are symbols that foreshadow changes.

Conclusion

Despite the harsh measures of the “Washington Consensus,” recent years have seen an increase in state intervention in most Latin American markets. The difference lies in the degree of return to this state interventionism. Only in some cases was this turn more radical, while most often these changes were gradual. The broadest state’s participation in markets was observed on the continent in the last two decades. To a greater extent, this is owing to the COVID-19 pandemic resulting from price control and extensive state intervention in social services management. In other words, in much of the region the commitment to development is still driven by the private sector, but under considerable public control.

The alternative, influenced by the “Cornwall Consensus” acknowledging the limitations of market fundamentalism and their instability, which became apparent even before the pandemic triggered off the debate on the need for a “new social contract” for a new global economic and social management. There is no doubt that the highlights of the G7 document ‘Global Economic Resilience: Building Forward Better’ stating that key economies should call on the countries of the world to cooperate to achieve social goals, to strengthen international solidarity and reform global power for the welfare of the people, are arguably unprecedented progress.

We have seen G7 governments and major European economies take responsibility and leadership in an effort to globally structure the new form of governance. They acknowledge that the state must assume leadership and make arrangements for the efforts of other economic agents: the public sector, private enterprise, social and trade union organizations, academia and ordinary citizens.

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30 Bases para un Modelo Solidario de Desarrollo Propuesto por el Grupo de Puebla // Grupo de Puebla. 02.12.2021. URL: https://www.grupodepuebla.org/modelosolidariodesarrollo/#:~:text=El%20Grupo%20%20DE%20PUEBLA%20pretende,iii)%20una%20nueva%20pol%C3%ADtica%2C%20econ%C3%ADtica%2C%20social%20%20y%20m%C3%ADtica%2C%20(accessed: 12.01.2022).

31 Ibid.

However, apparently, responses of Latin American countries to the new proposal of the “Cornwall Consensus” vary and range from restrained positive expectations of countries focused on market measures involving strong state incentives to the quite enthusiastic expectations of the left-wingers intending to find their new banner of struggle in the statecraft-like proposals of the “Cornwall Consensus,” even though they were formulated by the elite of global capitalism.

At this point, there is no telling whether a consensus will again be formed in the region as to the paradigm of state intervention. What is clear is that the current international and regional contexts make it very difficult to return to a general paradigm similar to the one that existed in the past.

Although the region partially abandoned some of the postulates of the “Washington Consensus,” it cannot be said that they have ceased to exist. In some cases, effective policies have been innovative, while in others they have been adapted to the new reality of the global economy. In any case, the search for a new paradigm of state intervention in the market regulation will take some time before it is incorporated by any of the Latin American countries, since most states in the region that follow the post-neoliberal course keep facing the problem of rent dependence. Therefore, for countries seeking to escape this trap are tasked with reducing the share of extractive industries, raw materials and agricultural exporters and drafting measures to stimulate scientific and engineering innovations.

Eventually, in our view, it all entirely depends on the ability of the region’s leadership elites to discern and reinforce the current correlation between economic growth and democracy using the opportunities provided by the new “Cornwall Consensus.”

References


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