Preface

The crisis that erupted in Argentina in 2001 raises many questions as to what went wrong and what lessons can be learned. No one doubts now that the Argentine authorities made serious mistakes, but the international community also bears responsibility for the crisis. The IMF backed Argentina's economic programmes with money and advice throughout the ten years that the convertibility regime (linking the peso to the dollar) was in place. Argentina was highly praised as an exemplary case of a country adopting the type of structural reforms that international financial institutions and private markets have been pushing over the past two decades. Argentina opened itself enthusiastically to world financial markets, which backed the country with significant resources. The risks involved were minimised by all these institutions and agents until very late in the process.

Argentina is not the only country in Latin America that has been affected by the mixed results of the reform agenda that came to be known as the "Washington Consensus". Indeed, the expectations raised by this agenda a decade ago have turned out to be a mirage. Contrary to the promise that economic liberalisation would generate rapid economic expansion, growth rates since 1990 have been half of what Latin America achieved during the period of state-led industrialisation. The strong recession that began in 2001 deepened in 2002, when GDP fell in Latin America by 0.5 percent, completing what we at ECLAC have called "the lost half-decade". Open unemployment reached 9.1 percent, a record figure in Latin American history. Over the past five years, the poor population has swollen by 20 million Latin Americans.

There are two causes for this widespread reversal. The first is the decision to follow the domestic reform agenda of the "Washington Consensus", despite its serious shortcomings. The second is the effect of the asymmetries between globalisation and the institutional framework in which it operates. Prominent among them is the volatility of financial markets. Periods of "irrational exuberance" in

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foreign lending have been followed by "irrational panics", leading to excessively high country risk premia and net capital outflows. Argentina is a case in point. New institutional frameworks at the world level must thus complement a new domestic development agenda.

Fortunately, there has also been some good news in 2002. Growth in Latin America resumed in the last quarter of the year. The use of flexible exchange rates in the region's larger economies has increased competitiveness and given, in some countries, room for counter-cyclical monetary policies. But undoubtedly the best news is that the economic debate has opened up. The dogmatism of a decade ago has started to fade. In branches of knowledge as imprecise as economics, an open controversy is essential to evaluate the strengths and weaknesses of different alternatives. Thus, pluralism in the economic debate and its reflections in the political arena are creating important opportunities for better policies.

In Latin America, the lessons learned over the past decade of intensive reforms are the basis for a reorientation of development strategies. Such reorientation should take into account three key elements: creating room for counter-cyclical policies that seek to reduce vulnerability to external financial cycles; adopting active productive development strategies that improve international competitiveness and offer greater opportunities to small firms; and implementing aggressive social policies that help ensure that the benefits of growth reach the entire population.

At the same time, the Argentine crisis and the "lost half-decade" for Latin America should be an incentive to reactivate the international discussion about ways to reform the global financial system. The Global Financial Governance Initiative's working group on Crisis Prevention and Response, co-chaired by Jan Joost Teunissen and myself, brings together Northern and Southern views on how financial crises can be avoided and better managed, as well as how the global financial system should be improved. This book results from that joint effort. I hope it will inspire those who can help transform developing countries in more stable and prosperous societies for all.

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