

**International Journal of Public Law and Policy**

ISSN online: 2044-7671 - ISSN print: 2044-7663

<https://www.inderscience.com/ijlap>

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**DOI:** [10.1504/IJPLAP.2023.10060509](https://doi.org/10.1504/IJPLAP.2023.10060509)

**Article History:**

Received:	04 May 2023
Last revised:	10 July 2023
Accepted:	24 July 2023
Published online:	16 December 2024

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## The impact of Washington Consensus rules on the guarantee of constitutional social rights in a comparative perspective in Latin America

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**Abstract:** Using quantitative and qualitative methods, this study examines the relationship between economic policy approaches, and the supply of public utilities and merit goods in ten selected Latin American countries. Focusing on the ‘extreme cases’ of Chile, Peru, Venezuela and Bolivia, the article employs a comprehensive analysis of dozens of constitutional provisions, economic and constitutional literature, illustrative case studies to assess the effects of various policy options directed to make people enjoy greater well-being. The results indicate that adherence to economic orthodoxy, as expressed by the Washington Consensus, appears to have a greater impact on the provision of fundamental goods and services, as a trend in the ten countries.

**Keywords:** Washington Consensus; economic orthodoxy; economic heterodoxy; economic growth.

**Reference** to this paper should be made as follows: Sumar, O. and Villanueva, A. (2025) ‘The impact of Washington Consensus rules on the guarantee of constitutional social rights in a comparative perspective in Latin America’, *Int. J. Public Law and Policy*, Vol. 11, No. 1, pp.66–80.

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## **1 Introduction**

In recent decades, Latin America has been the site of important constitutional reform debates, reflecting differing views on the role of the state in supporting socioeconomic growth. Some have underlined the significance of retaining the principles of economic orthodoxy, such as those established by the Chilean and Peruvian reforms of 1980 and 1993, while some political actors have argued for a return to heterodoxy, coupled with the codification of a vast array of socio-economic rights. These discussions have significant ramifications for the supply of public utilities, basic products, and the well-being of the people as a whole. Of course, there are other aspects of the debate, like political reform and the recognition of the identity of indigenous peoples, but we will concentrate our efforts in the debate between economic orthodoxy and the emphasis on codification of socio-economic rights, while leaving orthodoxy.

Using quantitative techniques for comparative legal studies, couple with other methods, this article seeks to examine the impact of these policy choices on the provision of public utilities and basic goods in a selection of ten Latin American nations, for practicality focusing on the ‘extremes’ Chile, Peru, Venezuela and Bolivia. This paper seeks to shed light on the relationship between economic orthodoxy, constitutional recognition of socio-economic rights, economic growth, and the availability of basic goods and services by employing an innovative methodology that combines a comparative analysis of constitutional provisions with a data-driven approach.

The second section of this study will compare the economic chapters of all Latin American constitutional texts enacted between 1980 and 2000, highlighting the contribution of a data-drive methodology, which is uncommon in legal studies. The next sections will examine the role of the Washington Consensus in fostering economic growth and enhancing the provision of public utilities and basic goods. We will use relevant scholarly literature and illustrative case examples to support our claims throughout the analysis.

The fundamental conclusion of this article is that the well-being of the population, measured as economic growth and the availability of essential commodities and services are more closely tied to adherence to economic orthodoxy. This finding highlights the significance of sound macroeconomic policies and efficient resource allocation in ensuring the effective realisation of socioeconomic rights, as well as the necessity of supplementing these policies with targeted social interventions to address issues of inequality and social exclusion.

## **2 The data: constitutional reform in Latin America and its results**

A quantitative analysis was applied to compare the impact of the constitutions of ten Latin American countries that underwent reforms between 1980 and 2010, and how these new constitutions affected the well-being of their populations. This kind of analysis is primarily based on Elkins et al. (2009), which are pioneers in the use of quantitative analysis in comparing constitutions.

For this study, the previous work of Sumar (2016) was used, where he quantified the influence of the Washington Consensus (WC) and socioeconomic rights in current and former constitutions for each country. The constitutional changes were compared with the

evolution of the Fraser ‘economic freedom’ ranking to see if the countries effectively applied what was postulated in their constitutions. Furthermore, to measure well-being in the population, the average growth of GDP per capita was used as a measure of economic well-being and the human development index as a measure of access to public services or the realisation of socio-economic rights.

In addition, this data makes it possible to counteract constitutional changes in terms of the difference in scores of the current and old constitutions with the average economic growth before and after the WC.

The first step was creating a comparative data base of the constitutions. We used Sumar’s (2016) work, where he created a draft constitution with the ten previsions and sub previsions of the WC to compare the countries constitutions against this ‘WC constitution model’. Different from the previous effort, in the present work, the inclusion of ‘state planning of the economy in a given constitution was penalised, as a way to better encapsulate the spirit of the text. If the constitution contemplated this provision, it was assigned the score minus ten (–10) because this represents a great restriction to the free market and is contrary to the nature of the WC.<sup>1</sup>

On the side of social rights, the constitutions were characterised according to the criteria of rights guaranteed by the State due to the international treaties approved by the countries in Latam (see Table 1).

**Table 1** Classification

<i>Economic principles (WC)</i>		<i>Social rights</i>
Fiscal discipline	Indebtedness	Right to health
	Redirection of public expending	Right to social security
	Tax reform	Right to education
Monetary stability	Rates on loans	Right to work (and labour rights)
	Exchange rate	Right to housing
Property rights protection	Property rights	Environment protection
	State planning of the economy	Consumer protection
Free international trade	Free international trade	Culture protection
	Barriers to foreign investment	Constitutional court
Privatisation	Deregulation	
	Privatisation of national enterprises	

The second step was the analyses of both the current and the most recent constitutions where we conducted in order to gauge the influence of the constitutional reforms. For instance, in the case of Bolivia, the present constitution was adopted in 2009, whereas the constitution that came before it was adopted in 1967. On this basis, it is also conceivable to quantify the variations between the two periods. Additionally, the difference between the real GDP per capita average growth rates 20 years before and 20 years after the constitutional change<sup>2</sup> was used to calculate the effect of the consensus on the general populace’s economic well-being.

As a result, the difference between the economic scores of the two constitutions indicates the degree in which the country has aligned itself with the WC since the constitutional reform. Even when most countries in the region show a positive degree of alignment, there are clear difference regarding the starting point and the total value of the

change. On the other hand, if the difference in average GDP per capita growth is positive, then it indicates that the nation expanded more following the constitutional amendment.

Since the WC theoretically has a pro-economic freedom orientation, we repeated the exercise of comparing the difference in average economic growth 20 years before and 20 years after each country's constitutional change, but this time with the difference in the average Fraser economic freedom score 20 years before and 20 years after each country's constitutional change to see if the results reflected the same.

After that, it was determined whether the nations that sided with the Consensus implemented it by having a higher economic freedom score in Fraser's ranking by comparing the differences in the economic freedom scores of the constitutions.

Finally, we will use the ranking of socioeconomic rights-codification along with the HDI score of each country.

Therefore, the constitutions can be ordered according to the influence of the WC and be counteracted with the economic growth experienced by the countries, as well as with the human development score, allowing the quantitative analysis represented in scatter graphs.

As the data shows, there are common trends in Latin America constitutional reforms (Gargarella, 2014). On the one hand, we have the influence of the WC. On the other hand, you have the influence of the HRM. Every country in the region adopted both 'paradigms' simultaneously: every country – including Venezuela or Bolivia – included more 'orthodox' WC-like provisions; and every country (except Ecuador) incremented the number of socioeconomic rights in its constitutional texts, including Peru and Chile.

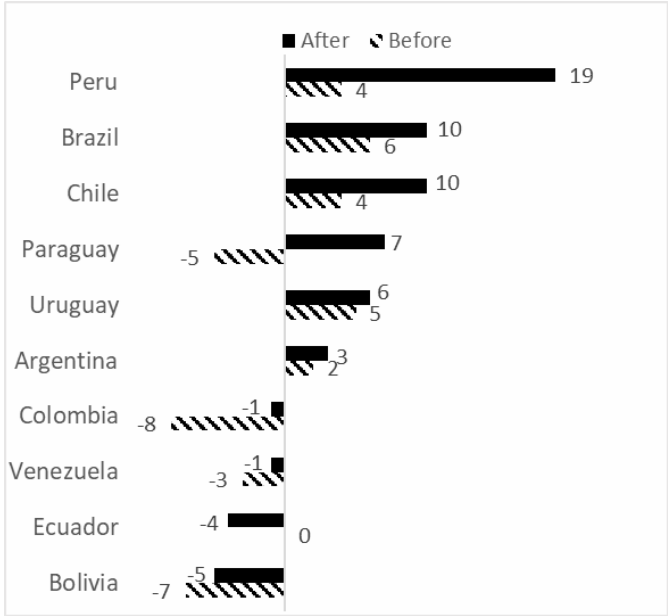
Nevertheless, it is also true that the degree of alignment varied a lot (Uprimny, 2011), at least in three senses. First, the degree of variation defers. Regarding alignment with the WC, countries like Peru or Paraguay changed more than 10 points; but, countries like Uruguay or Venezuela only 1 or 2. Peru passed from 4 to 19, becoming the most aligned in the region. Second, the starting point was very different. Countries like Uruguay changed little but were already aligned with the WC, while countries like Paraguay changed a lot, but their starting point was very low, so the 'arriving' point for both is almost the same for both (6 and 7). Third, some countries have a low starting point, changed little, and have very interventionist provisions, that not only contradict the WC, but revealed an 'attitude' towards its implementation. Beyond the text itself, some of these countries also have an implementation that continues to be heterodox, contradictory of the orthodoxy of the WC.

In Figure 1, the countries and their constitutions were ordered according to the influence of the WC in their current economic legal framework. Peru was the one that best adopted its constitution to the policies of the WC, followed by Chile and Brazil. In contrast, the countries that had less influence from the WC were Bolivia, Ecuador and Venezuela (see Figures 1 and 2).

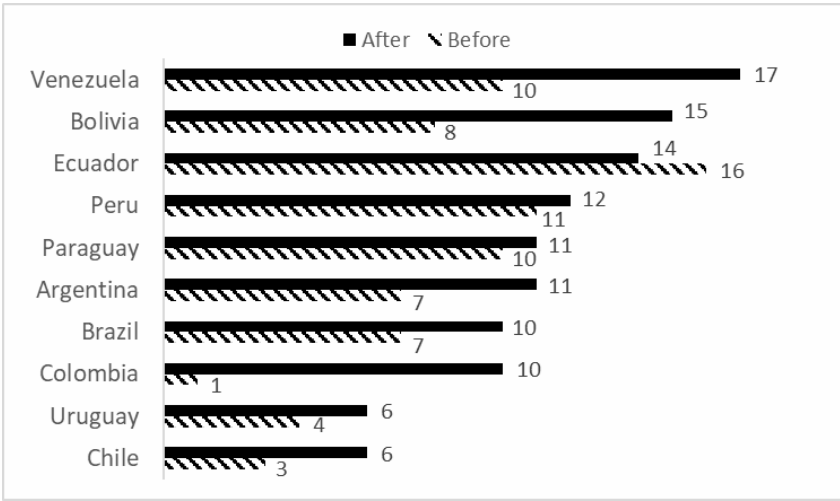
In the case of Ecuador, the current constitution (2008) was the only one that regressed in terms of orthodox economic score (WC) compared to the 1998 constitution.

Especially in the case of social rights, most countries experienced an increase in this (except for Ecuador) after the reforms. In particular, the countries that have a greater number of social rights are Venezuela, Bolivia, Ecuador and Peru. In contrast, Chile, Uruguay, Colombia, and Brazil, although they recognised a greater number of social rights compared to their previous constitutions, but these changes were less than in the other countries.

**Figure 1** Economic ranking of the ten Latin American countries and their constitutions



**Figure 2** Social ranking of the 10 Latin American countries and their constitutions

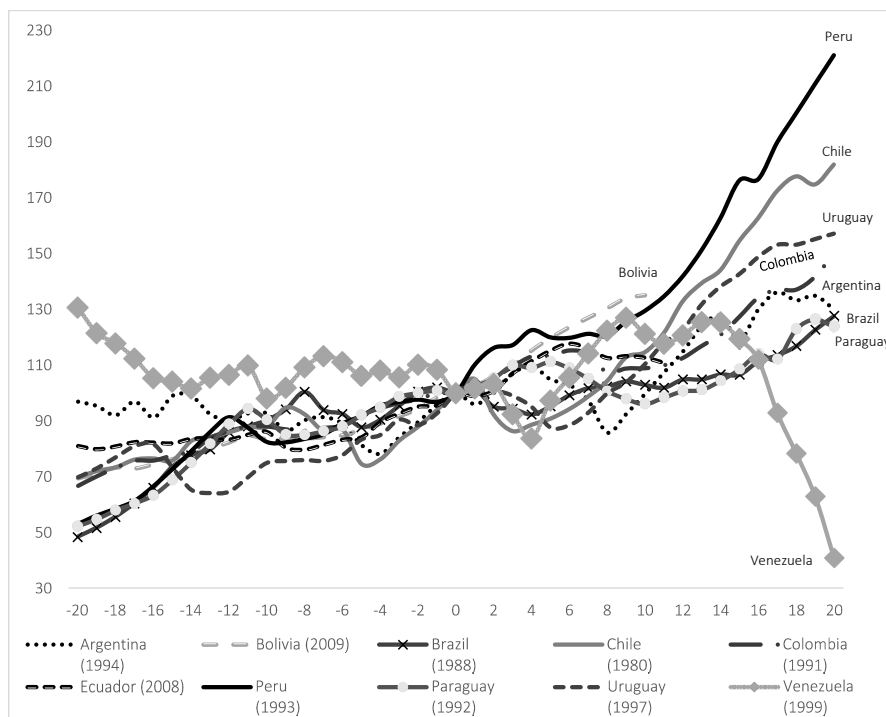


Also, some countries have less variation. Some have a low or very high starting point. Finally, its implementation in practice can differ from the constitutional text. Take the case of Ecuador for example. It now has less socioeconomic rights, but its starting point was very high. Also, countries like Colombia that have a short list of rights, but a very active judiciary that enforced socio-economic rights even beyond the text of the Colombian constitution or the common way of enforcing socioeconomic rights (Saffron, 2007).

## 2.1 Comparing Latin American constitutions

To compare the effects of the new constitutions on the welfare of these countries, an index based on 100 was created with real GDP per capita in dollars. The base year is the year in which the constitutional change took place (see Figure 3).

**Figure 3** GDP per capita in constant dollars 2015



Notes: 100 = year in which there is a change of constitution.

Venezuela's GDP per capita was estimated from 2015 with total GDP growth due to lack of data.

Source: World Bank and Fed

The data shows that most of the countries underwent a significant change in trend in their economic growth. Therefore, these nations can be divided into up to four groups.

In the first group of countries, Peru, Chile and Uruguay stand out as they achieved positive results with the highest growth; the first two are nations with a high influence of the WC.

In the second group there are countries with a medium influence of the WC, such as Colombia, Argentina and Paraguay. Even though they grew, they did not show a consistent and clear growth like the first group.

In the third group of countries, there are those with the least influence of the WC and those that later changed their constitution: Venezuela, Ecuador and Bolivia. In the case of the first, an important growth is observed from the fifth to the ninth year after the constitutional change, however, after that a critical fall is observed; it is worth mentioning that Venezuela was the richest country in Latin America before the change of

constitution. In the case of Ecuador and Bolivia, countries that were the last to change their constitutions, initial growth is also observed, but they are already showing signs of stagnation.

Finally, the last group of countries, there is Brazil, a country with a great influence of the WC but failed to stand out in economic growth after the constitutional change, compared to Peru and Chile.

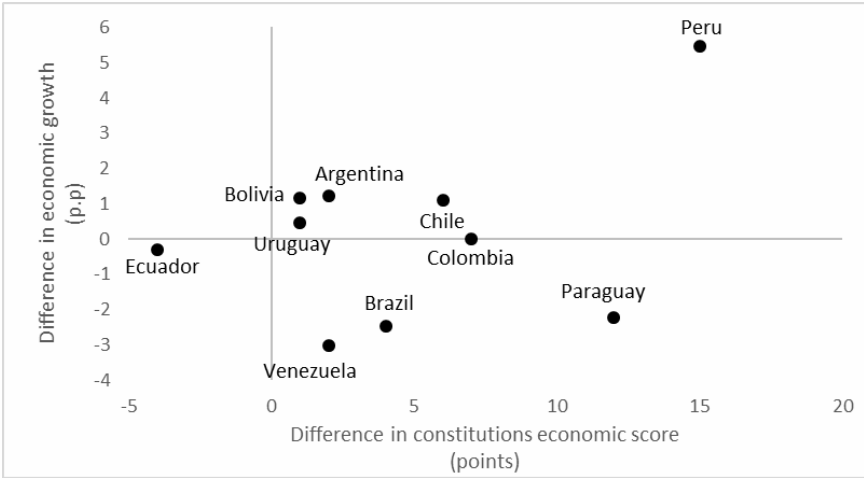
Additionally, to evaluate the impact of the change in the legal framework with respect to WC influence and its consequences, four scatter plots were created.

Apparent from the figures that countries that follow more the WC have a bigger economic growth. These results are consistent with the work of Grier and Grier (2021), who show a causal relationship between a nations alignment with the WC and economic growth, but there is also a positive relationship with the human development, these is consistent with Pritchett and Lewis (2022) work, who demonstrated, based on 89 well-being variables (including material well-being variables as well as unsatisfied basic needs) in 167 countries, that economic growth is strongly related to all these well-being variables, therefore, no country with a high level of GDP per capita has low levels of development, nor does any country with a high level of development have a low level of GDP per capita index.

First, on the x-axis, we can see the difference in the economic liberal score of the constitutions before and after the constitutional change and on the y-axis, we can see the difference in the average economic growth before and after the change in percentage points.

It shows that the only country that moved further away from the consensus was Ecuador. However, this does not mean that the countries that increased in the economic score are liberal. For example: Bolivia, Venezuela and Colombia have constitutions inclined to state planning (see Figure 4).

**Figure 4** Difference between the average growth of GDP per capita and the difference of the liberal score in the economic regime of the constitutions



Source: World Bank and Fred



In the first quadrant are the countries that have a greater orthodox economic score and also a higher economic growth, such as: Peru, Chile, Argentina, Bolivia and Uruguay.

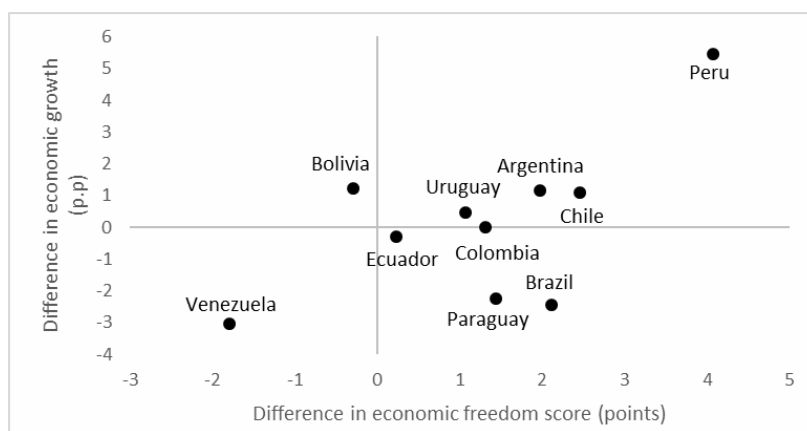
In the third quadrant are the countries that have a lower score in orthodox economic influence and a lower economic growth, such as Ecuador. In the fourth quadrant are the countries that have a greater orthodox economic score and a lower economic growth, such as: Venezuela, Brazil and Paraguay.

Furthermore, when we repeat the same exercise, but comparing the difference between the average economic growth and the difference in the Fraser economic freedom index, the data shows that Peru and Chile were the countries that made a greater shift towards economic freedom, as shown by the ranking of influence of the WC by Sumar (2016), and they were the countries with a further improvement in economic growth. On the other hand, Venezuela was the country with the least consensus influence, the lowest Fraser economic freedom ranking score, and the lowest economic growth.

Whereas there are countries that had less changes in economic freedom and economic growth such as Uruguay and Argentina. There are also countries that, although they improved in the ranking of economic freedom, the change was lower than that of Chile and Peru and registered a lower average economic growth such as: Brazil, Paraguay and Colombia.

In the case of Bolivia, after the constitutional change, it had a higher growth but fell slightly in the ranking of economic freedom. In the case of Ecuador, the positive change in economic freedom was principally due to the dollarisation of the economy. As a result, it obtained lower economic growth (see Figure 5).

**Figure 5** Difference between the average growth of GDP per capita and the average score of economic freedom of the countries before and after the change of constitution

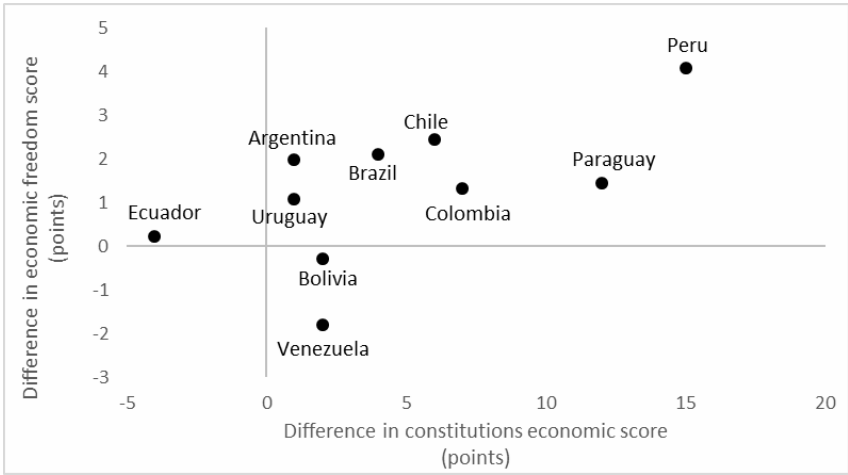


Source: World Bank, Fred and Fraser Institute

Also, we checked whether the liberal influence on the economic regime of the new constitutions managed to increase economic freedom (see Figure 6).

The results show that most of the countries that adapted the WC have increased their economic freedom score, except for Venezuela and Bolivia that decreased their economic freedom score. In the case of Ecuador, this country drifted further away from the WC politics but has a slightly higher economic freedom score because of the dollarisation.

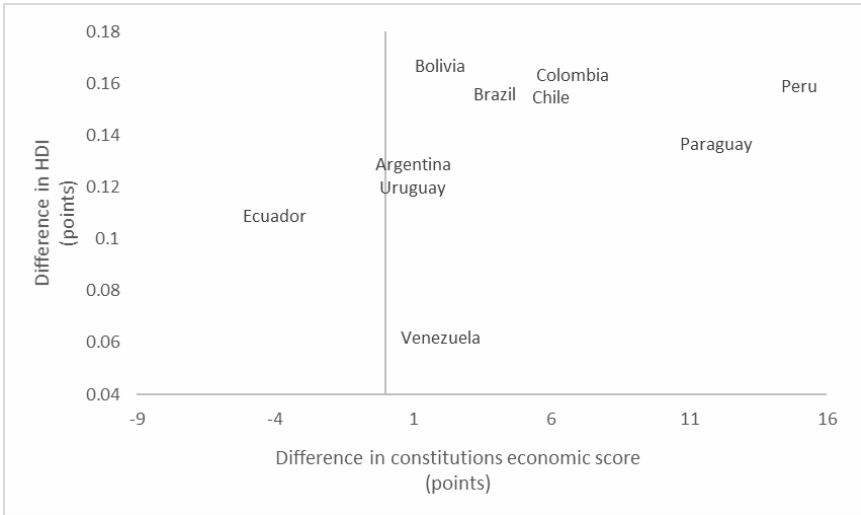
**Figure 6** Difference between the ranking of economic freedom and the difference of the liberal score in the economic regime of the constitutions



*Source:* Fraser Institute

Furthermore, we have countered the shift in the economic regime against the increase in HDI between 1990 and 2019, and a positive relationship between these two variables is observed.

**Figure 7** Difference between the HDI score (2021 vs. 1990) and the difference of the liberal score in the economic regime of the constitutions



*Source:* UN

These relationships show that economic orthodoxy in Latin America is not incompatible with the increase in socioeconomic rights recognised in the constitutions and that after these major reforms the countries managed to grow economically and achieve better development rates.

In the next part, we will showcase the differences between the orthodox and unorthodox approaches to monetary stability; property rights protection; free international trade; fiscal discipline; and privatisation, using Chile, Peru, Bolivia and Venezuela as examples.

### **3 Economic orthodoxy: examples of policy implementation**

#### *3.1 Monetary stability*

By adhering to disciplined fiscal and monetary policies that put a premium on low inflation and stable exchange rates, Chile and Peru have attained monetary stability. Central banks in these countries have been able to keep prices stable and promote long-term economic growth thanks in large part to the implementation of inflation targeting frameworks (Pastor and Wise, 1992). Peru's Central Reserve Bank has persistently followed a low inflation objective, bringing annual inflation down from over 400% in the late 1980s to less than 2% in recent years.

Monetary policy and macroeconomic stability in Chile (Céspedes et al., 2014) are two outcomes of Chile's successful implementation of an inflation-targeting system. Because of this stability in the money supply, companies and consumers are more confident in making long-term plans without worrying about short-term fluctuations in prices or exchange rates.

In contrast, attaining monetary stability has been extremely difficult for Venezuela and Bolivia. For the past few years, the inflation rate in Venezuela has been well over 1,000,000% (Hausmann and Rodríguez, 2014). The continued humanitarian catastrophe is exacerbated by the hyperinflation that has led to economic instability, currency depreciation, and decreased investor confidence.

Although hyperinflation has not occurred in Bolivia, the country has had trouble keeping inflation rates stable due to erratic monetary policies and political instability (Guerson, 2015). Because of this, investor confidence has plummeted, and economic development has slowed.

#### *3.2 Property rights protection*

The strong economic success of Chile and Peru can be attributed in large part to the countries' efforts to better defend property rights (Leblang, 1996). Couso (2017) notes that the 1980 Constitution of Chile laid the groundwork for a robust legal framework for protecting property rights, and that successive revisions have only strengthened this foundation. These safeguards have attracted investors from all over the world, contributing to the expansion and diversification of the economy.

Much progress has been made in securing property rights in Peru, particularly in the fields of land titling and intellectual property protection (De Soto, 2000). Growth in the economy and a lessening of poverty have both resulted from these reforms, which have encouraged more investment in industries like agriculture and mining (Williamson and Kerekes, 2011).

Yet, protecting private property has proven difficult in Venezuela and Bolivia. As multiples reports and news have shown, the Venezuelan government has expropriated private property without providing adequate compensation, which has discouraged

investment and stifled economic growth (Suhr, 2016). Conflicts in Bolivia over indigenous land rights and private property ownership have similarly dampened the country's investment climate (Tockman and Cameron, 2014).

### *3.3 Free international trade*

By establishing various free trade agreements and lowering trade barriers, Chile and Peru have increased their exports and attracted FDI from around the world. The USA, the European Union, and China are only a few of the countries with which Chile has signed free trade agreements (Agosin and Ffrench-Davis, 1995). As a result of these pacts, Chilean exports have increased and the country's economy has grown.

Peru has signed free trade agreements with the USA, the European Union, and several Asian countries as part of its trade liberalisation efforts. This has led to growth in Peru's export industry and increased FDI, particularly in the mining and industrial sectors.

Venezuela and Bolivia, on the other hand, have stuck to protectionist policies that have stunted their economic development by preventing them from fully participating in global markets (Edwards, 2019). Its collapse may be traced back in part to the country's restrictive trade policies and currency controls. Trade policies in Bolivia have similarly prioritised domestic industry protection over international competitiveness (Rodrik, 1992).

### *3.4 Fiscal discipline*

The long-term economic prosperity of Chile and Peru has benefited from the countries' more fiscally responsible spending habits, which have prioritised investments in infrastructure, education, and health. The government of Chile has been able to invest more in areas like social protection and human capital development thanks to a fiscal responsibility act passed in 2006 (Gavin and Perotti, 1997; Arellano, 1985).

Peru has also followed sound fiscal policies, investing in critical areas like education, health, and infrastructure, all of which have aided in the country's economic development and reduction of poverty (Herrera, 2017).

In contrast, poor fiscal management has led to inefficiency and unsustainable state spending in Venezuela and Bolivia. Hyperinflation and the collapse of the Venezuelan economy may be traced back to wasteful government spending and a drop in oil earnings (Restuccia, 2018). Governmental expenditure on social programs and subsidies has outpaced receipts and contributed to fiscal deficits in Bolivia (Kehoe et al., 2019).

### *3.5 Privatisation*

Chile and Peru's economic success can be attributed in part to the privatisation of public services, which has brought in investment, increased efficiency, and enhanced service delivery. There is evidence that privatisation of critical infrastructure in Chile and Peru has promoted competition and enhanced service quality (Chong and Lopez-de-Silanes, 2003). By lowering public debt and increasing earnings from the sale of state-owned assets, these changes have also helped to stabilise the country's finances (Ramamurti, 1992). Foreign investment has also increased as a result of these changes, which has helped to boost the economy.

On the other hand, governmental dominance over important sectors in Venezuela and Bolivia has led to inefficiency and slow growth. The nationalisation of oil and power in Venezuela has resulted in poor management, inadequate investment, and a decline in service quality (International Crisis Group, 2015). Bolivia has also suffered from its 'strategic nationalisation' policy (Kaup, 2010).

The adoption of Washington Consensus principles such as monetary stability, protection of property rights, free international commerce, rational spending practices, and privatisation of public services can contribute to accelerated economic growth and improved public service delivery, as evidenced by the experiences of Chile and Peru.

Although if the Washington Consensus has helped countries like Chile and Peru experience economic progress and stability, its guiding principles may not be relevant in every situation or provide adequate solutions to the wide range of problems plaguing Latin American nations (Walton, 2004). To ensure that the policy prescriptions are tailored to the unique needs and circumstances of each nation, it is necessary to consider the social, political, and cultural contexts in each country (Goldfajn et al., 2021).

The Washington Consensus has been useful in reducing recessions and boosting economies, but it has not always resulted in widespread prosperity or solved problems like income disparity or social isolation. According to critics (Rodrik, 2006), the emphasis on market-oriented reforms and fiscal discipline has sometimes led to cuts to social spending and reductions in public sector employment, worsening inequality, and social exclusion.

## **4 Conclusions**

Even when the conditions of each country are different, and we are not arguing that state provision of a good is inherently a bad idea, there is clear evidence that, taking the process of constitutional change in South America as a sample, there is a positive relationship between economic orthodoxy and economic and social development. In other words, in countries that adhered more closely to economic orthodoxy, they experienced greater economic and social development. While countries that are further away from economic orthodoxy showed mediocre performance in their pursuit of improving the well-being of the population.

This article's analysis sheds light on how economic orthodoxy and constitutional recognition of socioeconomic rights relates to the provision of public utilities and basic goods in a few selected Latin American countries. Using case studies from Chile, Peru, Venezuela and Bolivia, we show that despite widespread constitutional recognition of socio-economic rights, adherence to the principles of economic orthodoxy, as embodied by the Washington Consensus, appears to have a more significant impact on the availability of basic goods and services.

Adopting economic orthodoxy, as seen in the examples of Chile and mostly Peru, can lead to improvements in the provision of public utilities and basic goods, as well as a more stable macroeconomic climate. But the examples of Venezuela and Bolivia, show that constitutional protection of socio-economic rights alone cannot guarantee universal access to necessities. Further supporting the premise that economic orthodoxy is more likely to be responsible for increasing the provision of necessities is the situation of Peru, which pursued both economic orthodoxy and the recognition of socio-economic rights.

These results highlight the significance of effective resource allocation and solid macroeconomic policies in guaranteeing the full enjoyment of socio-economic rights. Recognising these rights in constitutional documents may have some symbolic or marginal importance, but it is not enough to ensure that they will be upheld and -in some cases- can even dumper the efforts to provide those goods and services. When crafting policies to combat inequality and social exclusion, policymakers must consider a wide range of factors, such as the importance of a dependable macroeconomic foundation, the efficacy of targeted social interventions, and the value of encouraging growth that benefits all segments of society.

Finally, the paper's case studies of a few Latin American nations show how complicated the relationship is between fiscal policy, constitutional protections for economic and social rights, and the provision of public services and necessities. To better ensure the fulfilment of socio-economic rights and improve the well-being of the population in the region, the research indicates a balanced strategy that combines adherence to the principles of economic orthodoxy with specific social policies and initiatives.

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## Notes

- 1 See more details of the score in the indicators in Sumar (2016). Notably, (–10) was assigned to the constitutions that establish the state planning of the economy, such as Venezuela (1961 and 1999), Ecuador (1998 and 2008), Bolivia (1967 and 2009), Colombia (1886 and 1996), Peru ( 1979) and Paraguay (1967).
- 2 In the case of Ecuador and Bolivia the average is measured 10 years before and 10 years after the constitutional change. However, in the case of Chile the average is measured 15 years before and 15 years after the constitutional change.