Speeches and Papers

What Washington Means by Policy Reform

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No statement about how to deal with the debt crisis in Latin America would be complete without a call for the debtors to fulfill their part of the proposed bargain by "setting their houses in order," "undertaking policy reforms," or "submitting to strong conditionality." The question posed in this paper is what such phrases mean, and especially what they are generally interpreted as meaning in Washington. Thus the paper aims to set out what would be regarded in Washington as constituting a desirable set of economic policy reforms. An important purpose in doing this is to establish a baseline against which to measure the extent to which various countries have implemented the reforms being urged on them.

The paper identifies and discusses 10 policy instruments about whose proper deployment Washington can muster a reasonable degree of consensus. In each case an attempt is made to suggest the breadth of the consensus, and in some cases I suggest ways in which I would wish to see the consensus view modified. The paper is intended to elicit comment on both the extent to which the views identified do indeed command a consensus and on whether they deserve to command it. It is hoped that the country studies to be guided by this background paper will comment on the extent to which the Washington consensus is shared in the country in question, as well as on the extent to which that consensus has been implemented and the results of its implementation (or nonimplementation).

The Washington of this paper is both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks. The Institute for International Economics made a contribution to codifying and propagating several aspects of the Washington consensus in its publication *Toward Renewed Economic Growth in Latin America* (Balassa et al. 1986). Washington does not, of course, always practice what it preaches to foreigners.

The 10 topics around which the paper is organized deal with *policy instruments* rather than objectives or outcomes. They are economic policy instruments that I perceive "Washington" to think important, as well as on which some consensus exists. It is generally assumed, at least in technocratic Washington, that the standard economic objectives of growth, low inflation, a viable balance of payments, and an equitable income distribution should determine the disposition of such policy instruments.

There is at least some awareness of the need to take into account the impact that some of the policy instruments in question can have on the extent of corruption. Corruption is perceived to be pervasive in Latin America and a major cause of the region's poor performance in terms of both low growth and inegalitarian income distribution. These implications will be mentioned below where they seem to be important.

Washington certainly has a number of other concerns in its relationship with its Latin neighbors (and, for that matter, with other countries) besides furthering their economic well-being. These include the promotion of democracy and human rights, suppression of the drug trade, preservation of the environment, and control of population growth. For better or worse, however, these broader objectives play little role in determining Washington's attitude toward the economic policies it urges on Latin America. Limited sums of money may be offered to countries in return for specific acts to combat drugs, to save tropical forests, or (at least prior to the Reagan administration) to promote birth control, and sanctions may occasionally be imposed in support of democracy or human rights, but there is little perception that the policies discussed below have important implications for any of those objectives. Political Washington is also, of course, concerned about the strategic and commercial interests of the United States, but the general belief is that these are best furthered by prosperity in the Latin countries. The most obvious possible exception to this perceived harmony of interests concerns the US national interest in continued receipt of debt service from Latin America. Some (but not all) believe this consideration to have been important in motivating Washington's support for policies of austerity in Latin America during the 1980s.

Fiscal Deficits

Washington believes in fiscal discipline. Congress enacted Gramm-Rudman-Hollings with a view to restoring a balanced budget by 1993. Presidential candidates deplore budget deficits before and after being elected. The International Monetary Fund (IMF) has long made the restoration of fiscal discipline a central element of the high-conditionality programs it negotiates with its members that wish to borrow. Among right-wing think tanks there may be a few believers in Ricardian equivalence—the notion that individuals adjust their saving behavior to anticipate future taxation, so that whether public expenditure is financed by taxation or bonds has no impact on aggregate demand—who are prepared to deny the danger of large fiscal deficits, but they clearly stand outside the Washington consensus. Left-wing believers in "Keynesian" stimulation via large budget deficits are almost an extinct species.

Differences of view exist, however, as to whether fiscal discipline need necessarily imply a balanced budget. One view is that a deficit is acceptable as long as it does not result in the debt-GNP ratio rising. An even more relaxed criterion would net off that part of the increased debt that has a counterpart in productive public capital formation and simply seek to prevent an increase in the net liabilities of the public sector relative to GNP. Another modification, which I find persuasive although much of Washington regards it as too "Keynesian" to endorse explicitly, argues that a balanced budget (or at least a nonincreasing debt-GNP ratio) should be a minimal medium-run norm, but that short-run deficits and surpluses around that norm should be welcomed insofar as they contribute to macroeconomic stabilization. (Note that Gramm-Rudman-Hollings is automatically suspended if the US economy goes into recession.) A variant of that view, held in some quarters where "Keynesian" is regarded as a term of abuse, is that progress toward the medium-term goal of a balanced budget should be sufficiently cautious to avoid the risk of precipitating a recession.

The budget deficit has traditionally been measured in nominal terms, as the excess of government expenditures over receipts. In 1982 Brazil argued with the IMF that this way of measuring the deficit is seriously misleading in a high-inflation country, where most of the nominal interest payments on government debt are really accelerated amortization of principal. The IMF has accepted this argument (Tanzi 1989), if initially with some reluctance, and hence it sometimes now pays attention to the "operational deficit," which includes in expenditure only the real component of interest paid on government debt. (Political Washington has not yet discovered this sensible innovation, which thus remains to be exploited as a means of relaxing the Gramm-Rudman-Hollings constraints when these threaten to bite.) Indeed, Tanzi (1989) also indicates that in formulating programs the Fund has increasingly been using the "primary deficit," which excludes all interest payments from the deficit, on the ground that this includes only items that are in principle directly controllable by the authorities. (That goes too far for my taste, since real interest payments certainly have implications for aggregate demand and the evolution of the real debt of the public sector.)

The exaggeration of budget deficits by inclusion of the inflationary component of interest on government debt is not the only inadequacy of public-sector accounting. Most of the other questionable practices seem to involve understatement of the true deficit:

- Contingent expenditures, such as the guarantees given to savings and loan institutions in the United States, are rarely included in reported budget outlays.
- Interest subsidies and some other expenditures are sometimes provided by the central bank rather than from the budget.
- Privatization proceeds are sometimes recorded as revenues rather than as a means of financing a fiscal deficit.
- The buildup of future liabilities of the social security system is not included in budget outlays.

Despite the significant differences in the interpretation of fiscal discipline, I would maintain that there is very broad agreement in Washington that large and sustained fiscal deficits are a primary source of macroeconomic dislocation in the forms of inflation, payments deficits, and capital flight. They result not from any rational calculation of expected economic benefits, but from a lack of the political courage or honesty to match public expenditures and the resources available to finance them. Unless the excess is being used to finance productive infrastructure investment, an operational budget deficit in excess of around 1 to 2 percent of GNP[1] is *prima facie* evidence of policy failure. Moreover, a smaller deficit, or even a surplus, is not necessarily evidence of fiscal discipline: its adequacy needs to be examined in the light of the strength of demand and the availability of private savings.

Public Expenditure Priorities

When a fiscal deficit needs to be cut, a choice arises as to whether this should be accomplished by increasing revenues or by reducing expenditures. One of the legacies of the Reagan administration and its "supply-side" allies has been to create a preference in Washington for reducing expenditures rather than increasing tax revenues, although it is not clear that this preference is very strong outside of right-wing political circles (including the right-wing think tanks).

Much stronger views are held, especially in the international institutions, about the composition of public expenditures. Military expenditures are sometimes privately deplored, but in general they are regarded as the ultimate prerogative of sovereign governments and accordingly off limits to international technocrats. Expenditures on public administration are recognized as necessary, although sometimes they are believed to be unnecessarily bloated, especially where corruption is out of hand. But there are three major expenditure categories on which views are strongly held: subsidies, education and health, and public investment.

Subsidies, especially indiscriminate subsidies (including subsidies to cover the losses of state enterprises) are regarded as prime candidates for reduction or preferably elimination. Everyone has horror stories about countries where subsidized gasoline is cheaper than drinking water, or where subsidized bread is so cheap that it is fed to pigs, or where telephone calls cost a cent or so because someone forgot (or lacked the courage) to raise prices to keep pace with inflation, or where subsidized "agricultural credit" is designed to buy the support of powerful landowners, who promptly recycle the funds to buy government paper. The result is not just a drain on the budget but also much waste and resource misallocation, with little reason to expect any offset from systematically favorable effects on income distribution, at least where indiscriminate subsidies are concerned.

Education and health, in contrast, are regarded as quintessentially proper objects of government expenditure (Balassa et al. 1986, chapter 4). They have the character of investment (in human capital) as well as consumption. Moreover, they tend to help the disadvantaged. This is an objective that fell under a cloud in the early years of the Reagan administration, but that has recovered its standing of the 1970s ("basic needs") in the late 1980s, aided by the prodding of UNICEF (Cornia, Jolly, and Stewart 1987). Thus, the Managing Director of the IMF, Michel Camdessus, has declared the Fund to have a concern about the impact of its programs on the poor, and more recently Barber Conable, President of the World Bank, has reasserted the Bank's commitment to seeking to end poverty.[2]

Just how much help expenditures on education and health in fact provide to the disadvantaged depends on their composition as well as their level. Primary education is vastly more relevant than university education, and primary health care (especially preventive treatment) more beneficial to the poor than hospitals in the capital city stuffed with all the latest high-tech medical gadgets. This is not to say that there is no need for universities or state-of-the-art hospitals: developing countries need to train and retain an educated elite as well as to raise the standards of the masses and the poorest. But it is to assert that many in Washington believe that expenditures need to be redirected toward education and health in general, and most especially in a way that will benefit the disadvantaged.

The other area of public expenditure that Washington regards as productive is public infrastructure investment. There is of course a view that the public sector tends to be too large (see the section on privatization below). However, that view coexists with the view that spending on infrastructure that is properly within the public sector needs to be large (and also that an industry should not be starved of investment just because it is, however inadvisedly, within the public sector).

Policy reform with regard to public expenditure is thus perceived to consist of switching expenditure from subsidies toward education and health (especially to benefit the disadvantaged) and infrastructure investment. I would add that, for my taste, the hostility toward subsidies tends to be too general. I fully sympathize with the hostility toward indiscriminate subsidies, but I also believe that there are circumstances in which carefully targeted subsidies can be a useful instrument. Thus, my own test of a country's policies would not be whether it had abolished all subsidies, but whether it could provide a convincing explicit justification for those that remain in terms of improving either resource allocation or income distribution.

Tax Reform

Increased tax revenues are the alternative to decreased public expenditures as a remedy for a fiscal deficit. Most of political Washington regards them as an inferior alternative. Much of technocratic Washington (with the exception of the right-wing think tanks) finds political Washington's aversion to tax increases irresponsible and incomprehensible.

Despite this contrast in attitudes toward the merits of increasing tax revenue, there is a very wide consensus about the most desirable method of raising whatever level of tax revenue is judged to be needed. The principle is that the tax base should be broad and marginal tax rates should be moderate. This principle, the basis of the 1986 reform of the US income tax, was promoted with equal enthusiasm by the late Joseph A. Pechman of the Brookings Institution and Senator Bill Bradley (D-NJ) and by the "supply-siders" in Congress and the right-wing think tanks.

A particular issue that arises in the Latin American context is whether an attempt should be made to include within the tax base interest income on assets held abroad ("flight capital"). By itself a single country's law subjecting such income to taxation may not have much impact because of the problem of enforcement, but a country is not even in a position to start discussions on enforcement with haven countries until it has legislated to impose taxes on the interest from flight capital (Lessard and Williamson 1987). Achieving effective taxation of the income from flight capital is bound to take a long time, but it would be interesting to know whether any countries have embarked on the effort.

Interest Rates

Two general principles about the level of interest rates would seem to command considerable support in Washington. One is that interest rates should be market-determined. The objective of this is to avoid the resource misallocation that results from bureaucrats rationing credit according to arbitrary criteria (Polak 1989). The other principle is that real interest rates should be positive, so as to discourage capital flight and, according to some, increase savings. Many, including myself, would qualify this statement to say that interest rates should be positive but moderate, so as to promote productive investment and avoid the threat of an explosion in government debt.

The question obviously arises as to whether these two principles are mutually consistent. Under noncrisis conditions, I see little reason to anticipate a contradiction; one expects market-determined interest rates to be positive but moderate in real terms, although high international interest rates may make it difficult to hold rates quite as moderate as might be desired. Under the sort of crisis conditions that much of Latin America has experienced for most of the 1980s, however, it is all too easy to believe that market-determined interest rates may be extremely high. it is then of interest to examine whether either principle has been followed or what sort of compromise between the two may have been achieved. In particular, it is still of interest to examine whether the credit market is segmented and channeling low-cost funds to "priority" sectors and, if so, what those sectors are and whether their selection has any economic rationale. The suspicion is that such segmented credit markets provide a prime environment for corruption to flourish.

The Exchange Rate

Like interest rates, exchange rates may be determined by market forces, or their appropriateness may be judged on the basis of whether their level seems consistent with macroeconomic objectives. Although there is some support in Washington for regarding the former principle as the more important (a view held in particular by those who deny the possibility of estimating equilibrium exchange rates), the dominant view is that achieving a "competitive" exchange rate is more important than how the rate is determined. In particular, there is relatively little support for the notion that liberalization of international capital flows is a priority objective for a country that should be a capital importer and ought to be retaining its own savings for domestic investment.

The test of whether an exchange rate is appropriate is whether it is consistent in the medium run with macroeconomic objectives (as in my concept of the "fundamental equilibrium exchange rate," or FEER; see Williamson 1985). In the case of a developing country, the real exchange rate needs to be sufficiently competitive to promote a rate of export growth that will allow the economy to grow at the maximum rate permitted by its supply-side potential, while keeping the current account deficit to a size that can be financed on a sustainable basis. The exchange rate should not be more competitive than that, because that would produce unnecessary inflationary pressures and also limit the resources available for domestic investment, and hence curb the growth of supply-side potential.

Growth of nontraditional exports is dependent not just on a competitive exchange rate at a particular point in time, but also on private-sector confidence that the rate will remain sufficiently competitive in the future to justify investment in potential export industries (for recent evidence, see Paredes 1989). Thus, it is important to assess the stability of the real exchange rate as well as its level.

A competitive real exchange rate is the first essential element of an "outward-oriented" economic policy, where the balance of payments constraint is overcome primarily by export growth rather than by import substitution. There is a very strongly held conviction in Washington that outward orientation and expanding exports—essentially growth in *nontraditional exports*—-are necessary for Latin American recovery (see, for example, Balassa et al. 1986).

Trade Policy

The second element of an outward-oriented economic policy is import liberalization. Access to imports of intermediate inputs at competitive prices is regarded as important to export promotion, while a policy of protecting domestic industries against foreign competition is viewed as creating costly distortions that end up penalizing exports and impoverishing the domestic economy. The ideal is a situation in which the domestic resource cost of generating or saving a unit of foreign exchange is equalized between and among export and import-competing industries.

The worst form of protection is considered to be import licensing, with its massive potential for creating opportunities for corruption. To the extent that there has to be protection, let it be provided by tariffs, so that at least the public purse gets the rents. And keep distortions to a minimum by limiting tariff dispersion and exempting from tariffs imports of intermediate goods needed to produce exports.

The free trade ideal is generally (although perhaps not universally) conceded to be subject to two qualifications. The first concerns infant industries, which may merit substantial but strictly temporary protection. Furthermore, a moderate general tariff (in the range of 10 percent to 20 percent, with little dispersion) might be accepted as a mechanism to provide a bias toward diversifying the industrial base without threatening serious costs. The second qualification concerns timing. A highly protected economy is not expected to dismantle all protection overnight. Views differ, however, on whether import liberalization should proceed according to a predetermined timetable (the World Bank view, embodied in many structural adjustment loans) or whether the speed of liberalization should vary endogenously, depending on how much the state of the balance of payments can tolerate (my own view, based on recollection of how Europe liberalized successfully in the 1950s).

Foreign Direct Investment

As noted above, liberalization of foreign financial flows is not regarded as a high priority. In contrast, a restrictive attitude limiting the entry of foreign direct investment (FDI) is regarded as foolish. Such investment can bring needed capital, skills, and know-how, either producing goods needed for the domestic market[3] or contributing new exports. The main motivation for restricting FDI is economic nationalism, which Washington disapproves of, at least when practiced by countries other than the United States.

FDI can be promoted by debt-equity swaps. Parts of Washington, perhaps most notably the US Treasury, the Institute of International Finance, and the International Finance Corporation, are strongly in favor of debtor countries facilitating debt-equity swaps, on the argument that this can simultaneously further the twin objectives of promoting FDI and reducing debt. Other parts of Washington, notably the IMF, are much more skeptical. They question whether FDI should be subsidized; they ask whether the subsidized investment will be additional; they argue that, if it is not, the debtor loses by having its foreign debt reduced rather than gaining free foreign exchange; and above all they worry about the inflationary implications of adding to domestic monetary expansion.

Privatization

Debt-equity swaps involve no monetary pressure when the equity purchased by the foreign investor is bought from the government, in the course of an enterprise being privatized. This is one attraction seen in privatization. More generally, privatization may help relieve the pressure on the government budget, both in the short run by the revenue produced by the sale of the enterprise and in the longer run inasmuch as investment need no longer be financed by the government.

However, the main rationale for privatization is the belief that private industry is managed more efficiently than state enterprises, because of the more direct incentives faced by a manager who either has a direct personal stake in the profits of an enterprise or else is accountable to those who do. At the very least, the threat of bankruptcy places a floor under the inefficiency of private enterprises, whereas many state enterprises seem to have unlimited access to subsidies. This belief in the superior efficiency of the private sector has long been an article of faith in Washington (though perhaps not held quite as fervently as in the rest of the United States), but it was only with the enunciation of the Baker Plan in 1985 that it became official US policy to promote foreign privatization. The IMF and the World Bank have duly encouraged privatization in Latin America and elsewhere since.

The lack of a strong indigenous private sector is one reason that has motivated some countries to promote state enterprises. This is again a nationalistic motivation and hence commands little respect in Washington.

My own view is that privatization can be very constructive where it results in increased competition, and useful where it eases fiscal pressures, but I am not persuaded that public service is always inferior to private acquisitiveness as a motivating force. Under certain circumstances, such as where marginal costs are less than average costs (for example, in public transport) or in the presence of environmental spillovers too complex to be easily compensated by regulation (for example, in the case of water supply), I continue to believe public ownership to be preferable to private enterprise. But this view is not typical of Washington.

Deregulation

Another way of promoting competition is by deregulation. This was initiated within the United States by the Carter administration and carried forward by the Reagan administration. It is generally judged to have been successful within the United States, and it is generally assumed that it could bring similar benefits to other countries.

The potential payoff from deregulation would seem to be much greater in Latin America, to judge from the assessment in Balassa et al. (1986, 130):

> Most of the larger Latin American countries are among the world's most regulated

> market economies, at least on paper. Among the most important economic regulatory mechanisms are controls on the establishment of firms and on new investments, restrictions on inflows of foreign investment and outflows of profit remittance, price controls, import barriers, discriminatory credit allocation, high corporate income tax rates combined with discretionary tax-reduction mechanisms, as well as limits on firing of employees.... In a number of Latin American countries, the web of regulation is administered by underpaid administrators. The potential for corruption is therefore great.
>
> Productive activity may be regulated by legislation, by government decrees, and case-by-case decision making. This latter practice is widespread and pernicious in Latin America as it creates considerable uncertainty and provides opportunities for corruption. It also discriminates against small and medium-sized businesses which, although important creators of employment, seldom have access to the higher reaches of the bureaucracy.

Property Rights

In the United States property rights are so well entrenched that their fundamental importance for the satisfactory operation of the capitalist system is easily overlooked. I suspect, however, that when Washington brings itself to think about the subject, there is general acceptance that property rights do indeed matter. There is also a general perception that property rights are highly insecure in Latin America (see, for example, Balassa et al. 1986, chapter 4).

Washington's Practice

Washington does not always practice what it preaches, as a moment's reflection on the most embarrassing subject mentioned above—corruption—will surely reveal. This paper was, after all, written during the weeks when a massive scandal at the US Department of Housing and Urban Development came to light—a case involving fraud and irresponsibility on a scale large enough to erode the credibility of Washington's preaching.

That would be true, at least, if Washington's advice were a moral admonition to purity. But that is not in fact the way it is generally perceived. Rather, the advice is intended to further the self-interest of the countries to whom it is directed (although not necessarily with a weighting of the interests of the constituent classes identical to that of the ruling elite in those countries). The fact that the United States also suffers from fraud and corruption does not make those practices any less detrimental in Latin countries, especially to those excluded from the elite. On the contrary, the greater pervasiveness of corruption in many Latin countries suggests that the damage it does is much greater.

Washington's record is likewise imperfect in other areas discussed above. On the first criterion, that of controlling the fiscal deficit, the US record of the 1980s is poor. It is true that the federal deficit has been failing since 1985, especially as a proportion of GNP, and that the operational deficit is now only some I percent of GNP, which is within the range consistent with continued solvency of the public sector. However, the fiscal deficit remains too large for macroeconomic balance, given the low private saving rate in the United States. The excessively high fiscal deficit results in the maintenance of high real interest rates and an unsustainably large current account deficit, with consequential burdens on debtors, discouragement of investment, nurturing of protectionist sentiment, and the continuing threat of a "hard landing."

The other areas where Washington's practice leaves much to be desired are exchange rate policy, where the ill effects of the dollar's vast overvaluation of the mid-1980s still linger even though the misalignment itself has been largely corrected, and trade policy, which has made discouraging lurches toward protection despite all the pledges to the contrary. in most of the microeconomic areas —notably tax reform, FDI (so far, at least), deregulation, and property rights—Washington's actions are consistent with its rhetoric.

Concluding Remarks

The economic policies that Washington urges on the rest of the world may be summarized as prudent macroeconomic policies, outward orientation, and free-market capitalism. It practices the last of these with more consistency than the first two, but that should not be taken to imply that they are less important. Most of technocratic Washington believes that the failure to practice what is preached hurts the United States as well as the rest of the world.

It is not at all clear that the policy reforms currently sought by Washington adequately address all of the critical current problems of Latin America. Consider, for example, the transitional problems of inflation stabilization. Fiscal discipline is certainly a precondition for mastering inflation. But some would argue that it needs to be supplemented by price and wage freezes and a fixed exchange rate (on the Mexican model), whereas others might well wish to add price liberalization to the list of policy initiatives that Washington should be urging on Latin America. There is no consensus view on this topic, even though some policy on price control (perhaps differing by country) may be critical to successful stabilization.

As a second example, Dornbusch (1989a) has recently raised the question of whether the Washington agenda described above can be relied on to restore growth once stabilization has been achieved. He points to the disappointing experiences of Bolivia and Mexico, where determined and effective stabilization has not yet resulted in a resumption of growth. If he is right in his contention that entrepreneurs may adopt a wait-and-see policy after stabilization rather than promptly committing themselves to the risks involved in new investment, the important question arises as to what must be added to Washington's policy advice in order to restore growth.

A third important issue concerns capital flight. Fiscal discipline, positive real interest rates, a competitive exchange rate, and more secure property rights are all important for reversing capital flight. But it is doubtful whether all those reforms together would lead to a prompt return of flight capital. Elimination of the current tax incentive to keep money abroad would surely help too (Lessard and Williamson 1987), but this is certainly not a policy on which Washington has yet reached a consensus, nor is it clear that adding it would be enough to do the trick.[4]

Even though the Washington consensus may not be sufficient to resolve all the major Latin problems, it is surely of interest to ask:

- Is the consensus shared in Latin America?
- Have the recommended policies been implemented in Latin America?
- What results have been achieved where the recommended policies have been implemented?

Those are the questions that the country studies are being asked to address. Answering them will at least help to clear the ground for examining what additional policies may be needed to limit the transitional costs of inflation stabilization, to restore growth, and to reverse capital flight.

One final reflection: A striking fact about the list of policies on which Washington does have a collective view is that they all stem from classical mainstream economic theory, at least if one is allowed to count Keynes as a classic by now. None of the ideas spawned by the development literature—such as the big push, balanced or unbalanced growth, surplus labor, or even the two-gap model—plays any essential role in motivating the Washington consensus (although I would fortify my preference for varying the pace of import liberalization depending on the availability of foreign exchange by appeal to the two-gap model). This raises the question as to whether Washington is correct in its implicit dismissal of the development literature as a diversion from the harsh realities of the dismal science.[5] Or is the Washington consensus, or my interpretation of it, missing something?

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Notes

1. This figure assumes a desire to stabilize the debt-GNP ratio, *D/Y*, at no more than 0.4. Assume a real growth rate, *?Y/Y*, of 0.04. Then *?D/D – ?Y/Y* ≤ 0 implies *?D/Y* ≤ *Y/Y* x *D/Y* = 0.04 x 0.4 = 0.016.

2. See, for example, Camdessus' address to the United Nations Economic and Social Council in Geneva on 26 June 1987 (*IMF Survey*, 29 June 1987) and the interview with Conable in Istanbul on 19 May 1989.

3. An exception to the case for welcoming FDI can arise if the domestic market in question is heavily protected, when the growth produced by foreign investment can be immiserizing: see Brecher and Díaz Alejandro (1977).

4. Some might want to add the debt issue as a fourth topic on which it is not clear that the Washington agenda suffices to resolve the current problem, but this seems to me unfair. The Brady Plan is based on the premise that official help in achieving debt reduction should be given to those countries that have "put their houses in order," which implies that the latter alone is not expected to achieve a resolution of the debt problem.

5. Ironically, Washington seems to have reached this position just as Chicago theorists have rediscovered the old ideas of externalities that underlay the development literature: see Shleifer (1989) for a survey of the new literature on the theory of development.

Peterson Institute for International Economics

A GUIDE TO JOHN WILLIAMSON'S WRITING

This page provides access to most of my more recent writing. It is divided into four areas:

- **Exchange Rate Policy**
This is a subject that I have written about since 1965, when I first advocated adoption of the crawling peg in a Princeton Essay of that title and introduced the term that won me a place in the *Oxford English Dictionary.*

- **Crises and Capital Account Convertibility**
I count this as one topic rather than two to reflect my belief that the East Asian crisis was above all a result of premature liberalization of the capital account.

- **The "Washington Consensus"**
This is another term that I have contributed to the English language, although one that has for some time been used in ways significantly different from what I originally intended.

- **South Asia**
This section mainly contains a number of the presentations I made in South Asia during my three years (1996-99) as Chief Economist for the South Asia Region of the World Bank.

Exchange-Rate Policy

Like much of the writing in the field of exchange-rate policy, mine has been primarily advocatory. Unlike most of the recent writers, I have never been much attracted to the extreme positions of completely fixed or freely floating exchange rates. My most comprehensive attempt to explain why, and to explore the options for intermediate exchange rate regimes that would be less vulnerable to speculative pressures, is contained in Exchange Rate Regimes for Emerging Markets: Reviving the Intermediate Option (published by the Institute as a Policy

Analysis in September 2000). A precursor to this was Crawling Bands or Monitoring Bands: How to Manage Exchange Rates in a World of Capital Mobility**,** published in the first issue of *International Finance* in October 1998.

My writing on exchange rates long precedes the digital age. It started with *The Crawling Peg,* published as Princeton Essay No. 50 in 1965 and reprinted in Peter B. Kenen, ed., *The International Monetary System: Highlights from Fifty Years of Princeton's Essays in International Finance* (Westview Press, 1993). After the advent of generalized floating in 1973, I toyed with the reference rate proposal in "The Future Exchange Rate Regime," published in the *Banca Nazionale del Lavoro Quarterly Review* in June 1975. But as experience with floating rates accumulated, I became convinced that a more highly managed system than that was going to be necessary to persuade exchange rates to behave as the textbooks said they did, and hence convened a conference in Rio de Janeiro (where I was then teaching) in 1979 to explore the crawling peg's potentialities in detail. The results were published in *Exchange Rate Rules: The Theory, Performance, and Prospects of the Crawling Peg* (edited by me and published by Macmillan and St. Martin's Press in 1981). This was supplemented by "A Survey of the Literature on the Optimal Peg," published in the *Journal of Development Economics* in August 1982.

In 1981 I joined Fred Bergsten in his newly founded Institute for International Economics, and we soon discovered that we had very similar views on exchange-rate policy. Our discussions resulted in a joint paper that developed the concept of target zones for exchange rates, entitled "Exchange Rates and Trade Policy," that was published in *Trade Policy for the 1980s* (edited by William R. Cline and published by the Institute in 1983). I developed the notion of target zones further in one of the Institute's Policy Analyses in International Economics entitled *The Exchange Rate System,* first published in 1983 and in revised form in 1985. Marcus Miller and I incorporated this into a more general framework for policy coordination among the major economic powers in another of the Institute's Policy Analyses entitled *Targets and Indicators: A Blueprint for the International Coordination of Economic Policy* in 1987 (preceded by a paper written jointly with Hali Edison, entitled "On Evaluating and Extending the Target Zone Proposal," published in the *Journal of Policy Modeling* in 1987). I edited a volume entitled Estimating Equilibrium Exchange Rates that the Institute published in 1994 (a volume now rendered redundant by a much more comprehensive study edited by Lawrence Hinkle and Peter Montiel entitled *Exchange Rate Misalignment: Concepts and Measurement for Developing Countries,* published by the World Bank in 1999). Randy Henning and I dealt with the politics of target zones and the blueprint in "Managing the Monetary System" in Peter B. Kenen, ed., Managing the World Economy: Fifty Years After Bretton Woods*,* published by the Institute in 1994. I examined the new fad for currency boards in What Role for Currency Boards? published by the Institute in 1995. The last piece I wrote for the Institute before taking leave of absence to go to the World Bank was an attempt to examine how well "crawling bands" (as target zones had been renamed by Jacob Frenkel, after Paul Krugman had appropriated the latter term to refer to ERM-type zones where the authorities made a fetish of trying to avoid changes in parity) had operated in practice; the result was The Crawling Band as an Exchange Rate Regime: Lessons from Chile, Colombia, and Israel (1996).

I have written two conference papers since the PA mentioned at the beginning of this section was published. The first is a short piece entitled "Dollarization Does Not Make Sense Everywhere" that was written for a conference of the North-South Institute in Ottawa in October. I suppose the bottomline could be summarized as arguing that dollarization makes perfect sense in El Salvador, may work in Ecuador, but would be an act of insanity in Argentina. A far more comprehensive treatment of the arguments regarding dollarization is contained in a Socratic dialogue in a 1999 Spanish book by Jurgen Schuldt entitled *Dolarizacion Oficial de la Economia: Un Debate en Once Actos*, which has been very successful in Peru but is little known elsewhere. My other paper was presented to a conference of the Egyptian Center for Economic Studies in Cairo in November, and is entitled

"Designing a Middle Way Between Fixed and Flexible Exchange Rates." In July 2001, I presented "From Bretton Woods to Bipolarity: The Evolution of Thought on Exchange Rate Regimes, 1971–2001" at the thirtieth anniversary celebrations of the Monetary Authority of Singapore.

In September 2004 I was invited to give a keynote speech to a conference on China's exchange rate policy at the Central Univeristy of Finance and Economics in Beijing, on the topic "The Choice of Exchange Rate Regime: The Relevance of International Experience to China's Decision".

Crises and Capital Account Convertibility

One of the themes of *The Crawling Peg,* published as a Princeton Essay in 1965, was that the crudest form of intermediate exchange rate regime, the adjustable peg as endorsed at Bretton Woods, was bound to spawn speculative crises as capital mobility developed. I had always taken the challenge to be to design an intermediate exchange rate regime that would be consistent with a high degree of capital mobility, and I was unconvinced by the argument that what caused the 1991-92 ERM crises was the abandonment of the residual exchange controls in the EU in 1990 rather than the emergence of misalignments as a result of German reunification. Nevertheless, the Gadarene rush of investors to push money into any promising emerging market in the 1990s was an obvious potential source of trouble, and I was strongly in favor of the Chilean attempt to repel excessive inflows rather than the decision of (for example) Mexico to wallow in the inflows as long as they lasted. My sympathy with the Chilean position was nurtured by a visit that I paid to Chile as a consultant in 1991, when the problem of excessive inflows first developed, which led to "On Liberalizing the Capital Account" in Richard O'Brien, ed., *Finance and the International Economy 5* (Oxford University Press, 1991) and a paper, The Management of Capital Inflows, originally published in Spanish in *Pensamiento Iberoamericano*, January-June, 1995.

My first comment on the East Asian crisis came in a paper entitled Learning from East Asia's Woes**,** presented in Dhaka in March 1998. Subsequent papers bearing on the topic are Implications of the East Asian Crisis for Debt Management**,** presented to an RBI Conference in January 1999, and Future Exchange Rate Regimes for Developing East Asia, presented to a conference in Singapore in June 1999.

Since returning to the Institute in October 1999, I have become inovolved in the discussions seeking a "new international financial architecture", whose purpose is essentially that of improving international mechanisms for crisis avoidance and management. Thus I was a member of the working group of the Overseas Development Council that prepared a report *The Future Role of the IMF in Development* that was published in April 2000, and I summarized this report and several others (including the Meltzer Commission report) in a paper entitled The Role of the IMF: A Guide to the Reports for a Commonwealth Secretariat/World Bank conference in June. In September of 2000 I presented two further papers on these issues at international conferences. One was for a meeting sponsored by the Reinventing Bretton Woods Committee and the American Council on Germany in Paris, and discussed how to go about achieving what seems to be the widely shared objective of A More Focused IMF**.** The other was for a meeting of the Brazilian Center for International Affairs (CEBRI) in Rio de Janeiro, and was entitled Modernizing the International Financial Architecture: Big Outstanding Issues.

In mid-2002 the financial markets became extremely restless about Brazil, driven by a combination of Brazil's high public sector debt and the fears instilled by the advance of the left-wing candidate Lula in the polls. Following a visit to Brazil in July 2002 I developed my own analysis of the situation that was published as an

IIE Policy Brief Is Brazil Next?.

The "Washington Consensus"

Doubtless I am most famous for having coined the phrase "the Washington Consensus," which makes me somewhat unhappy, partly because some reformers have taken this to suggest that the main credit for reform lies in Washington rather than with them, and partly because the term is so often used in an abusive sense markedly different from that which I intended. I originally formulated what I termed the Washington Agenda, or the Washington Consensus, in the background paper "**What Washington Means by Policy Reform**" (**1**) for a conference held by the Institute for International Economics in November 1989, which was published as the opening chapter in the conference volume *The Progress of Policy Reform in Latin America* in 1990. My idea was to demonstrate to a Washington audience that still seemed to think that Latin America was stuck in the mind-frame of the 1960s and pleading for debt relief under the Brady Plan without doing anything to earn it that they were wrong, and that Latin America deserved some help. For that purpose it made sense to list the reforms that most of Washington could agree were needed in Latin America and then get authors from the region to say how much had been done along those lines in each of their countries. And in that endeavor I like to think the exercise was rather successful.

Unfortunately, my prosaic list of policy reforms that could command a consensus (and I would argue that there was more of a consensus about what needed to be done in 1989 than at just about any other time in history—remember, this was when it was proclaimed that history had ended) came to be interpreted as a policy manifesto for the "neoliberal" right, or a revelation of what the Washington-based international institutions were trying to impose on the rest of the world. My reaction to these interpretations can be found in "Revisiting the Washington Consensus**,**" a paper I wrote for an IDB conference just before I joined the World Bank (published in 1997 by the IDB in Louis Emmerij, ed., *Economic and Social Development into the XXI Century*), and in What Should the [World] Bank Think About the Washington Consensus? a paper I wrote for an internal World Bank conference in July 1999, and in Economic Reform: Content, Progress, Prospects, a lecture delivered at the University of Baroda in India in November 1999.

In June 2002 I read Joe Stiglitz's new book *Globalization and its Discontents*, and was sufficiently peeved with his populist usage of my term to write an unsolicited review of his book. Unlike many of his reviewers, I actually regard many of his criticisms as quite substantive, but I still find his way of expressing them unfortunate, and not only because of the personal attacks in which he is prone to indulge. Late 2002 witnessed even more obituaries of the Wahington Consensus than usual, so I was finally moved to ask "Did the Washington Consensus Fail?" That was by way of a prelude to the book edited by Pedro-Pablo Kuczynski and me called "After the Washington Consensus: Restarting Growth and Reform in Latin America" that was first released at the Annual Meeting of the InterAmerican Development Bank in Milan in March 2003. The Portuguese edition appeared in August 2003, when I gave a lecture at FAAP in Sao Paulo entitled "Depois do Consenso de Washington: Uma Agenda para Reforma Economica na América Latina". A Spanish edition was published by the Universidad Peruana de Ciencias Aplicadas in December 2003 (contact Ursula Freundt at ufreundt@upc.edu.pe for information). I have also discussed the new agenda and its relationship to the Washington Consensus in several shorter articles in English, such as "From Reform Agenda to Damaged Brand Name" which appeared in the September 2003 issue of Finance and Development. I was invited to give one of the World Bank's Practitioners in Development lectures on January 13, 2004, under the title "The Washington Consensus as Policy Prescription for Development". A conference under the title 'From the Washington Consensus toward a New Global Governance" organised as a part of the Forum Barcelona 2004 included my paper

"A Short History of the Washington Consensus".

South Asia

During my three years as Chief Economist for the South Asia Region in the World Bank I had the good fortune to visit that fascinating part of the world quite frequently. When I first went I was impressed by how all of the countries seemed to have taken the success of the East Asian countries to heart, and were seeking to learn the lessons that would allow them to engineer similar miracles at home. Less than a year later the East Asian crisis broke, and all of a sudden the antireformers had a new lease on life and were seeking to convince their fellow citizens that the crisis showed not just the folly of liberalizing capital movements but also the danger of liberalizing trade, of abolishing power subsidies and eliminating small-scale industry reservation, and of implementing all the other reforms that are needed to nurture an economic miracle in South Asia. Some reformers (most flamboyantly, I suppose, Surjit Bhalla) responded by posing the rhetorical question as to whether it would be better to have 30 years of rapid East Asian-style growth followed by a setback of a year or two, or 30 years of the Hindu rate of growth? My own reaction was different: I argued that it was the premature capital-account liberalization that caused the crisis and the other liberalization that caused the growth, and so I urged them to continue with all the other reforms while putting capital account convertibility on ice "for 30 years." My argument was put in Whither Financial Liberalization? a speech to a conference in Mumbai (Bombay) in November 1998. An earlier paper that also made the case that the East Asian crisis was primarily due to the failure to exercise due caution in accepting capital inflows was Learning from East Asia's Woes (presented to a conference of the Bangladesh Economic Association and the International Economic Association in Dhaka in March 1998).

Some of the other presentations I made in the region (most of them amount to much less than academic papers) were Trade Liberalization in Bangladesh (Dhaka, September 1999); Economists, Policy Reform, and Political Economy (keynote address to a conference on the political economy of policy reform at the Rajiv Gandhi Institute in Delhi, December 1998); On Markets and Regulation (presented to a conference on the Indian economy at the University of California at Santa Cruz, November 1998); Implications of the East Asian Crisis for Debt Management (presented to a conference of the Reserve Bank of India, January 1999); Pakistan and the World Economy (Annual Conference of the Pakistan Society of Development Economists, January 1999); Globalization: The Concept, Causes, and Consequences (a speech to the Sri Lankan Association for the Advancement of Science, December 1998); and "The Rationale for Financial Sector Reform" (Kathmandu, September 1999). Incidentally, my Princeton Essay (jointly with Molly Mahar) entitled *A Survey of Financial Liberalization* (1998) was sparked by a meeting with some of the financial community in Mumbai during my first visit there in November 1996, who asked what the international experience with financial liberalization had been.

My lecture on Economic Reform: Content, Progress, Prospects, delivered at the University of Baroda's 50th anniversary celebration in November 1999, may also be of interest.

Washington Consensus

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The **Washington Consensus** is a set of 10 relatively specific economic policy prescriptions that is considered to constitute the "standard" reform package promoted for crisis-wracked developing countries by Washington, D.C.–based institutions such as the International Monetary Fund (IMF), World Bank, and the US Treasury Department.[1] It was coined in 1989 by English economist John Williamson. The prescriptions encompassed policies in such areas as macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy.

Subsequent to Williamson's minting of the phrase, and despite his emphatic opposition, the term Washington Consensus has come to be used fairly widely in a second, broader sense, to refer to a more general orientation towards a strongly market-based approach (sometimes described as market fundamentalism or neoliberalism). In emphasizing the magnitude of the difference between the two alternative definitions, Williamson himself has argued (see "Origins of Policy Agenda" and "Broad Sense" below) that his ten original, narrowly defined prescriptions have largely acquired the status of "motherhood and apple pie" (i.e., are broadly taken for granted), whereas the subsequent broader definition, representing a form of neoliberal manifesto, "never enjoyed a consensus [in Washington] or anywhere much else" and can by now reasonably be said to be dead.

Discussion of the Washington Consensus has long been contentious. Partly this reflects a lack of agreement over what is meant by the term, in face of the contrast between the broader and narrower definitions outlined above. But there are also substantive differences involved over the merits and consequences of the various policy prescriptions involved. Some of the critics discussed in this article take issue, for example, with the original Consensus's emphasis on the opening of developing countries to global markets, and/or with what they see as an excessive focus on strengthening the influence of domestic market forces, arguably at the expense of key functions of the state. For other commentators reviewed below, the point at issue is less what is *included* in the Consensus than what is *missing*, including such areas as institution-building and targeted efforts to improve opportunities for the weakest in society. Despite these areas of controversy, a great many writers and development institutions would by now accept the more general proposition that strategies need to be tailored to the specific circumstances of individual countries.

History

Original sense: Williamson's Ten Points

The concept and name of the Washington Consensus were first presented in 1989 by John Williamson, an economist from the Institute for International Economics, an international economic think tank based in Washington, D.C.[2] Williamson used the term to summarize commonly shared themes among policy advice by Washington-based institutions at the time, such as the International

Monetary Fund, World Bank, and U.S. Treasury Department, which were believed to be necessary for the recovery of countries in Latin America from the economic and financial crises of the 1980s. [*citation needed*]

The consensus as originally stated by Williamson included ten broad sets of relatively specific policy recommendations:[1]

1. Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP;
2. Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
3. Tax reform, broadening the tax base and adopting moderate marginal tax rates;
4. Interest rates that are market determined and positive (but moderate) in real terms;
5. Competitive exchange rates;
6. Trade liberalization: liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
7. Liberalization of inward foreign direct investment;
8. Privatization of state enterprises;
9. Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions;
10. Legal security for property rights.

Origins of policy agenda

Although Williamson's label of the *Washington* Consensus draws attention to the role of the Washington-based agencies in promoting the above agenda, a number of authors have stressed that Latin American policy-makers arrived at their own packages of policy reforms primarily based on their own analysis of their countries' situations. Thus, according to Joseph Stanislaw and Daniel Yergin, authors of *The Commanding Heights*, the policy prescriptions described in the Washington Consensus were "developed in Latin America, by Latin Americans, in response to what was happening both within and outside the region."[3] Joseph Stiglitz has written that "the Washington Consensus policies were designed to respond to the very real problems in Latin America and made considerable sense" (though Stiglitz has at times been an outspoken critic of IMF policies as applied to developing nations).[4] In view of the implication conveyed by the term Washington Consensus that the policies were largely external in origin, Stanislaw and Yergin report that the term's creator, John Williamson, has "regretted the term ever since", stating "it is difficult to think of a less diplomatic label."[3]

A 2010 paper by Nancy Birdsall, Augusto de la Torre, and Felipe Valencia Caicedo likewise suggests that the policies in the original consensus were largely a creation of Latin American politicians and technocrats, with Williamson's role having been to gather the ten points in one place for the first time, rather than to "create" the package of policies.[5]

In Williamson's own words from 2002:

> It is difficult even for the creator of the term to deny that the phrase "Washington Consensus" is a damaged brand name (Naím 2002). Audiences the world over seem to believe that this signifies a set of neoliberal policies that have been imposed on hapless countries by the Washington-based international financial institutions and have led them to crisis and misery. There are people who cannot utter the term without foaming at the mouth.
>
> My own view is of course quite different. The basic ideas that I attempted to summarize in the Washington Consensus have continued to gain wider acceptance over the past decade, to the point where Lula has had to endorse most of them in order to be electable. For the most part they are motherhood and apple pie, which is why they commanded a consensus.[6]

Broad sense

Williamson recognizes that the term has commonly been used with a different meaning from his original prescription; he opposes the alternative use of the term, which became common after his initial formulation, to cover a broader market fundamentalism (or neoliberal) agenda.[7]

> I of course never intended my term to imply policies like capital account liberalization (...I quite consciously excluded that), monetarism, supply-side economics, or a minimal state (getting the state out of welfare provision and income redistribution), which I think of as the quintessentially neoliberal ideas. If that is how the term is interpreted, then we can all enjoy its wake, although let us at least have the decency to recognize that these ideas have rarely dominated thought in Washington and certainly never commanded a consensus there or anywhere much else...[6]

More specifically, Williamson argues that the first three of his ten prescriptions are uncontroversial in the economic community, while recognizing that the others have evoked some controversy. He argues that one of the least controversial prescriptions, the redirection of spending to infrastructure, health care, and education, has often been neglected. He also argues that, while the prescriptions were focused on reducing certain functions of government (e.g., as an owner of productive enterprises), they would also strengthen government's ability to undertake other actions such as supporting education and health. Williamson says that he does not endorse market fundamentalism, and believes that the Consensus prescriptions, if implemented correctly, would benefit the poor.[8] In a book edited with Pedro-Pablo Kuczynski in 2003, Williamson laid out an expanded reform agenda, emphasizing crisis-proofing of economies, "second-generation" reforms, and policies addressing inequality and social issues (Kuczynski and Williamson, 2003).[*full citation needed*]

As noted, in spite of Williamson's reservations, the term Washington Consensus has been used more broadly to describe the general shift towards free market policies that followed the displacement of Keynesianism in the 1970s. In this broad sense the Washington Consensus is sometimes considered to have begun at about 1980.[9][10] Many commentators see the consensus, especially if interpreted in the broader sense of the term, as having been at its strongest during the 1990s. Some have argued that the consensus in this sense ended at the turn of the century, or at least that it became less influential after about the year 2000.[5][11] More commonly, commentators have suggested that the Consensus in its broader sense survived until the time of the 2008–2009 global financial crisis.[10] Following the strong intervention undertaken by governments in response to market failures, a number of journalists, politicians and senior officials from global institutions such as the World

Bank began saying that the Washington Consensus was dead.[12][13] These included former British Prime Minister Gordon Brown, who following the 2009 G-20 London summit, declared "the old Washington Consensus is over".[14] Williamson was asked by *The Washington Post* in April 2009 whether he agreed with Gordon Brown that the Washington Consensus was dead. He responded:

> It depends on what one means by the Washington Consensus. If one means the ten points that I tried to outline, then clearly it's not right. If one uses the interpretation that a number of people—including Joe Stiglitz, most prominently—have foisted on it, that it is a neoliberal tract, then I think it is right.[15]

After the 2010 G-20 Seoul summit announced that it had achieved agreement on a Seoul Development Consensus, the *Financial Times* editorialized that "Its pragmatic and pluralistic view of development is appealing enough. But the document will do little more than drive another nail into the coffin of a long-deceased Washington consensus."[16]

Context

Many countries have endeavored to implement varying components of the reform packages, with implementation sometimes imposed as a condition for receiving loans from the IMF and World Bank.[9] The results of these reforms are much debated. Some critics focus on claims that the reforms led to destabilization.[17] Some critics have also blamed the Washington Consensus for particular economic crises such as the Argentine economic crisis (1999–2002), and for exacerbating Latin America's economic inequalities.[*citation needed*] Criticism of the Washington Consensus has often been dismissed as socialism and/or anti-globalism. While these philosophies do criticize these policies, general criticism of the economics of the consensus is now more widely established, such as that outlined by US scholar Dani Rodrik, Professor of International Political Economy at Harvard University, in his paper *Goodbye Washington Consensus, Hello Washington Confusion?*.[18]

The institutions that formed the consensus started softening their insistence on these policies in the 2000s largely due to political pressures surrounding globalization, but any reference of these ideas as a consensus essentially ended in the wake of the 2008 global financial crisis, as market fundamentalism lost favour. Though, it should be noted, that most of the core specific policies are still generally regarded favourably, but the policies have come to be viewed as not preventing nor alleviating acute economic crises. This is perhaps most notable in the work of the IMF with South Korea to create a new sort of intervention program to the one that South Korea was forced to accept during the Asian Financial Crisis of the late 1990s. That intervention, which was heavily grounded in the Washington Consensus, was hailed at the time for stopping the "Asian Contagion" but eventually the program came to be seen more skeptically.[*citation needed*]

Williamson himself has summarized the overall results on growth, employment and poverty reduction in many countries as "disappointing, to say the least". He attributes this limited impact to three factors: (a) the Consensus *per se* placed no special emphasis on mechanisms for avoiding economic crises, which have proved very damaging; (b) the reforms—both those listed in his article and, *a fortiori*, those actually implemented—were incomplete; and (c) the reforms cited were insufficiently ambitious with respect to targeting improvements in income distribution, and need to be complemented by stronger efforts in this direction. Rather than an argument for abandoning the original ten prescriptions, though, Williamson concludes that they are "motherhood and apple pie" and "not worth debating".[6] Both Williamson and other analysts have pointed to longer term improvements in economic performance in a number of countries that have adopted the relevant policy changes consistently, such as Chile (below).

As Williamson himself has pointed out, the term has come to be used in a broader sense to its original intention, as a synonym for market fundamentalism or neo-liberalism. In this broader sense, Williamson states, it has been criticized by people such as George Soros and Nobel Laureate Joseph E. Stiglitz.[8] The Washington Consensus is also criticized by others such as some Latin American politicians and heterodox economists such as Erik Reinert.[19] The term has become associated with neoliberal policies in general and drawn into the broader debate over the expanding role of the free market, constraints upon the state, and the influence of the United States, and globalization more broadly, on countries' national sovereignty.[*citation needed*]

> "Stabilize, privatize, and liberalize" became the mantra of a generation of technocrats who cut their teeth in the developing world and of the political leaders they counseled. [18]
>
> — *Dani Rodrik, Professor of International Political Economy, Harvard University in JEL on December 2006*

While opinion varies among economists, Rodrik pointed out what he claimed was a factual paradox: while China and India increased their economies' reliance on free market forces to a limited extent, their general economic policies remained the exact opposite to the Washington Consensus' main recommendations. Both had high levels of protectionism, no privatization, extensive industrial policies planning, and lax fiscal and financial policies through the 1990s. Had they been dismal failures they would have presented strong evidence in support of the recommended Washington Consensus policies. However they turned out to be successes.[20] According to Rodrik: "While the lessons drawn by proponents and skeptics differ, it is fair to say that nobody really believes in the Washington Consensus anymore. The question now is not whether the Washington Consensus is dead or alive; it is what will replace it".[18]

Rodrik's account of Chinese or Indian policies during the period is not universally accepted. Among other things those policies involved major turns in the direction of greater reliance upon market forces, both domestically and internationally.[21]

In a book edited with Pedro Pablo Kuczynski in 2003, John Williamson laid out an expanded reform agenda, emphasizing crisis-proofing of economies, "second-generation" reforms, and policies addressing inequality and social issues.[*citation needed*]

Macroeconomic adjustment

The widespread adoption by governments of the Washington Consensus was to a large degree a reaction to the macroeconomic crisis that hit much of Latin America, and some other developing regions, during the 1980s. The crisis had multiple origins: the drastic rise in the price of imported oil following the emergence of OPEC, mounting levels of external debt, the rise in US (and hence international) interest rates, and—consequent to the foregoing problems—loss of access to additional foreign credit. The import-substitution policies that had been pursued by many developing country governments in Latin America and elsewhere for several decades had left their economies ill-equipped to expand exports at all quickly to pay for the additional cost of imported oil (by contrast, many countries in East Asia, which had followed more export-oriented strategies, found it comparatively easy to expand exports still further, and as such managed to accommodate the external shocks with much less economic and social disruption). Unable either to expand external borrowing further or to ramp up export earnings easily, many Latin American countries faced no obvious sustainable alternatives to reducing overall domestic demand via greater fiscal discipline, while in parallel adopting policies to reduce protectionism and increase their economies' export orientation.[22]

Trade liberalization

The Washington Consensus, as framed by Williamson, envisaged a largely *unilateral* process of trade reform, by which countries would lower their non-tariff (especially) and tariff barriers to imports. Many countries, including the majority of those in Latin America, have indeed undertaken significant unilateral trade liberalization over subsequent years, opening their economies to greater import competition while simultaneously increasing the share of exports in their GDP (in parallel, Latin America's share in global trade has also increased).[*citation needed*]

A separate agenda—only tangentially related to the Washington Consensus as framed by Williamson—concerns various programs for *multilateral* trade liberalization, whether at the global (WTO) or regional level, including the North American Free Trade Agreement (NAFTA) and DR-CAFTA agreements.[*citation needed*]

Criticism

Most criticism has been focused on trade liberalization and the elimination of subsidies, and criticism has been particularly strident in the agriculture sector. In nations with substantial natural resources, though, criticism has tended to focus on privatization of industries exploiting these resources.[*citation needed*]

As of 2010, several Latin American countries were led by socialist or other left wing governments, some of which—including Argentina and Venezuela—have campaigned for (and to some degree adopted) policies contrary to the Washington Consensus policies. Other Latin American countries with governments of the left, including Brazil, Chile and Peru, in practice adopted the bulk of the policies included in Williamson's list, even though they criticized the market fundamentalism that these are often associated with. Also critical of the policies as actually promoted by the IMF have been some US economists, such as Joseph Stiglitz and Dani Rodrik, who have challenged what are sometimes described as the 'fundamentalist' policies of the IMF and the US Treasury for what Stiglitz calls a 'one size fits all' treatment of individual economies. According to Stiglitz the treatment suggested by the IMF is too simple: one dose, and fast—stabilize, liberalize and privatize, without prioritizing or watching for side effects.[23]

> The reforms did not always work out the way they were intended. While growth generally improved across much of Latin America, it was in most countries less than the reformers had originally hoped for (and the "transition crisis", as noted above deeper and more sustained than hoped for in some of the former socialist economies). Success

> stories in Sub-Saharan Africa during the 1990s were relatively few and far in between, and market-oriented reforms by themselves offered no formula to deal with the growing public health emergency in which the continent became embroiled. The critics, meanwhile, argue that the disappointing outcomes have vindicated their concerns about the inappropriateness of the standard reform agenda.[24]

Besides the excessive belief in market fundamentalism and international economic institutions in attributing the failure of the Washington consensus, Stiglitz provided a further explanation about why it failed. In his article "The Post Washington Consensus Consensus",[25] he claims that the Washington consensus policies failed to efficiently handle the economic structures within developing countries. The cases of East Asian countries such as Korea and Taiwan are known as a success story in which their remarkable economic growth was attributed to a larger role of the government by undertaking industrial policies and increasing domestic savings within their territory. From the cases, the role for government was proven to be critical at the beginning stage of the dynamic process of development, at least until the markets by themselves can produce efficient outcomes.[*citation needed*]

> The policies pursued by the international financial institutions which came to be called the Washington consensus policies or neoliberalism entailed a much more circumscribed role for the state than were embraced by most of the East Asian countries, a set of policies which (in another simplification) came to be called the development state.[25]

The critique laid out in the World Bank's study *Economic Growth in the 1990s: Learning from a Decade of Reform* (2005) [26] shows how far discussion has come from the original ideas of the Washington Consensus. Gobind Nankani, a former vice-president for Africa at the World Bank, wrote in the preface: "there is no unique universal set of rules.... [W]e need to get away from formulae and the search for elusive 'best practices'...." (p. xiii). The World Bank's new emphasis is on the need for humility, for policy diversity, for selective and modest reforms, and for experimentation.[27]

The World Bank's report *Learning from Reform* shows some of the developments of the 1990s. There was a deep and prolonged collapse in output in some (though by no means all) countries making the transition from communism to market economies (many of the Central and East European countries, by contrast, made the adjustment relatively rapidly). More than a decade into the transition, some of the former communist countries, especially parts of the former Soviet Union, had still not caught up to their 1990 levels of output. Many Sub-Saharan African's economies failed to take off during the 1990s, in spite of efforts at policy reform, changes in the political and external environments, and continued heavy influx of foreign aid. Uganda, Tanzania, and Mozambique were among countries that showed some success, but they remained fragile. There were several successive and painful financial crises in Latin America, East Asia, Russia, and Turkey. The Latin American recovery in the first half of the 1990s was interrupted by crises later in the decade. There was less growth in per capita GDP in Latin America than in the period of rapid post-War expansion and opening in the world economy, 1950-80. Argentina, described by some as "the poster boy of the Latin American economic revolution",[28] came crashing down in 2002.[27]

Among other results of the recent global financial crisis has been a strengthening of belief in the importance of local development models as more suitable than programmatic approaches. Some elements of this school of thought were summarized in the idea of a "Beijing Consensus" which suggested that nations needed to find their own paths to development and reform.[*citation needed*]

Anti-globalization movement

Many critics of trade liberalization, such as Noam Chomsky, Tariq Ali, Susan George, and Naomi Klein, see the Washington Consensus as a way to open the labor market of underdeveloped economies to exploitation by companies from more developed economies. The prescribed reductions in tariffs and other trade barriers allow the free movement of goods across borders according to market forces, but labor is not permitted to move freely due to the requirements of a visa or a work permit. This creates an economic climate where goods are manufactured using cheap labor in underdeveloped economies and then exported to rich First World economies for sale at what the critics argue are huge markups, with the balance of the markup said to accrue to large multinational corporations. The criticism is that workers in the Third World economy nevertheless remain poor, as any pay raises they may have received over what they made before trade liberalization are said to be offset by inflation, whereas workers in the First World country become unemployed, while the wealthy owners of the multinational grow even more wealthy.[*citation needed*]

Anti-globalism critics further claim that First World countries impose what the critics describe as the consensus's neoliberal policies on economically vulnerable countries through organizations such as the World Bank and the International Monetary Fund and by political pressure and bribery. They argue that the Washington Consensus has not, in fact, led to any great economic boom in Latin America, but rather to severe economic crises and the accumulation of crippling external debts that render the target country beholden to the First World.[*citation needed*]

Many of the policy prescriptions (e.g., the privatization of state industries, tax reform, and deregulation) are criticized as mechanisms for ensuring the development of a small, wealthy, indigenous elite in the Third World who will rise to political power and also have a vested interest in maintaining the local status quo of labor exploitation.[*citation needed*]

Some specific factual premises of the critique as phrased above (especially on the macroeconomic side) are not accepted by defenders, or indeed all critics, of the Washington Consensus. To take a few examples,[29] inflation in many developing countries is now at its lowest levels for many decades (low single figures for very much of Latin America). Workers in some factories created by foreign investment are found typically to receive higher wages and better working conditions than exist in many of their own countries' domestically owned workplaces. Economic growth in much of Latin America in the last few years has been at historically high rates, and debt levels, relative to the size of these economies, are on average significantly lower than they were several years ago. [*citation needed*]

Despite these macroeconomic advances, poverty and inequality remain at high levels in Latin America. About one of every three people—165 million in total—still live on less than $2 a day. Roughly a third of the population has no access to electricity or basic sanitation, and an estimated 10 million children suffer from malnutrition. These problems are not, however, new: Latin America was the most economically unequal region in the world in 1950, and has continued to be so ever since, during periods both of state-directed import-substitution and (subsequently) of market-oriented liberalization.[30]

Some socialist political leaders in Latin America are vocal and well-known critics of the Washington Consensus, such as the late Venezuelan President Hugo Chávez, Cuban ex-President Fidel Castro, Bolivian President Evo Morales, and Rafael Correa, President of Ecuador. In Argentina, too, the recent Justicialist Party government of Néstor Kirchner and his spouse who succeeded him undertook policy measures which represented a repudiation of at least some Consensus policies (see Continuing Controversy below). With the exception of Castro, these leaders have maintained and expanded some successful policies commonly associated with the Washington Consensus, such as macroeconomic stability and property rights protection. But many have also proposed and implemented policies directly opposed to the Washington Consensus: under Chavez, for example, Venezuela partially nationalized the state-run oil company, Petróleos de Venezuela S.A (PdVSA), and with the help of the company's assets developed several social programs to help the country's poor. These programs have been credited with the dramatic improvement in quality of life during Chavez's presidency: the poverty rate dropped from 48.6% in 2002 to 29.5% in 2011, while access to education and healthcare was significantly increased.[31]

Others on the Latin American left take a different approach. Governments led by the Socialist Party of Chile, by Alan García in Peru, by Tabaré Vázquez in Uruguay, and by Luiz Inácio Lula da Silva in Brazil, have in practise maintained a high degree of continuity with the economic policies described under the Washington Consensus (debt-paying, protection to foreign investment, financial reforms, etc.). But governments of this type have simultaneously sought to supplement these policies by measures directly targeted at improving productivity and helping the poor, such as education reforms and subsidies to poor families conditioned on their children staying in school. [*citation needed*]

Neo-Keynesian criticisms

Neo-Keynesian and post-Keynesian critics of the Consensus [citation needed] have argued that the underlying policies were incorrectly laid down and are too rigid to be able to succeed. For example, flexible labor laws were supposed to create new jobs, but economic evidence from Latin America is inconclusive on this point.[*citation needed*] In addition, some argue that the package of policies does not take into account economic and cultural differences between countries.[*by whom?*] Some critics have argued that this set of policies should be implemented, if at all, during a period of rapid economic growth and not—as often is the case—during an economic crisis.[*citation needed*]

Moisés Naím, chief editor of *Foreign Policy*, has made the argument that there was no 'consensus' in the first place. He has argued that there are and have been major differences between economists over what is the 'correct economic policy', hence the idea of there being a consensus was also flawed.[*citation needed*]

Proponents of the "European model" and the "Asian way"

Some European and Asian economists suggest that "infrastructure-savvy economies" such as Norway, Singapore, and China have partially rejected the underlying Neoclassical "financial orthodoxy" that characterizes the Washington Consensus, instead initiating a pragmatist development path of their own[32] based on sustained, large-scale, government-funded investments in strategic infrastructure projects: "Successful countries such as Singapore, Indonesia, and South Korea still remember the harsh adjustment mechanisms imposed abruptly upon them by the IMF and World Bank during the 1997-1998 'Asian Crisis' […] What they have achieved in the past 10 years is all the more remarkable: they have quietly abandoned the Washington Consensus by investing massively in infrastructure projects […] this pragmatic approach proved to be very successful".[33]

While China invested roughly 9% of its GDP on infrastructure in the 1990s and 2000s, most Western and non-Asian emerging economies invested only 2% to 4% of their GDP in infrastructure assets. This considerable investment gap allowed the Chinese economy to grow at near-optimal conditions while many South American, South Asian, and African economies suffered from various development bottlenecks like poor transportation networks, aging power grids, and mediocre schools.[*citation needed*]

Argentina

See also: 1998–2002 Argentine great depression and Argentine debt restructuring

The Argentine economic crisis of 1999–2002 is often held out as an example of the economic devastation said by some to have been wrought by application of the Washington Consensus. Argentina's former Deputy Foreign Minister Jorge Taiana, in an interview with the state news agency Télam on August 16, 2005, attacked the Washington Consensus. There never was a real consensus for such policies, he said, and today "a good number of governments of the hemisphere are reviewing the assumptions with which they applied those policies in the 1990s", adding that governments are looking for a development model to guarantee productive employment and the generation of real wealth.[34]

Many economists, however, challenge the view that Argentina's failure can be attributed to close adherence to the Washington Consensus. The country's adoption of an idiosyncratic fixed exchange rate regime ("convertibility"), which became increasingly uncompetitive, together with its failure to achieve effective control over its fiscal accounts, both ran counter to central provisions of the Consensus, and paved the way directly for the ultimate macroeconomic collapse. The market-oriented policies of the early Menem-Cavallo years, meanwhile, soon petered out in the face of domestic political constraints (including Menem's preoccupation with securing re-election).[35]

In October 1998 the IMF invited Argentine President Carlos Menem, to talk about the successful Argentine experience, at the Annual Meeting of the Board of Governors.[36] President Menem's Minister of Economy (1991–1996), Domingo Cavallo, the architect of the Menem administration's economic policies, specifically including "convertibility", made the claim that Argentina was at that moment, "considered as the best pupil of the IMF, the World Bank and the USA government":

> On the second semester of 1998 Argentina was considered in Washington the most successful economy among the ones that had restructured its debt within the Brady's Plan framework. None of the Washington Consensus' sponsors were interested in pointing out that the Argentine economic reforms had differences with its 10 recommendations. On the contrary, Argentina was considered the best pupil of the IMF, the World Bank and the USA government.

— *Domingo Cavallo, former Argentine Minister of Economy (1991–1996).,* [37]

The problems which arise with reliance on a fixed exchange rate mechanism (above) are discussed in the World Bank report *Economic Growth in the 1990s: Learning from a Decade of Reform*, which questions whether expectations can be "positively affected by tying a government's hands". In the early 1990s there was a point of view that countries should move to either fixed or completely flexible exchange rates to reassure market participants of the complete removal of government discretion in foreign exchange matters. After the Argentina collapse, some observers believe that removing government discretion by creating mechanisms that impose large penalties may, on the contrary, actually itself undermine expectations. Velasco and Neut (2003) [38] "argue that if the world is uncertain and there are situations in which the lack of discretion will cause large losses, a pre-commitment device can actually make things worse".[39] In chapter 7 of its report (*Financial Liberalization: What Went Right,What Went Wrong?*) the World Bank analyses what went wrong in Argentina, summarizes the lessons from the experience, and draws suggestions for its future policy.[40]

The IMF's Independent Evaluation Office has issued a review of the lessons of Argentina for the institution, summarized in the following quotation:

> The Argentine crisis yields a number of lessons for the IMF, some of which have already been learned and incorporated into revised policies and procedures. This evaluation suggests ten lessons, in the areas of surveillance and program design, crisis management, and the decision-making process.[41]

Mark Weisbrot says that, in more recent years, Argentina under former President Néstor Kirchner made a break with the Consensus and that this led to a significant improvement in its economy; some add that Ecuador may soon follow suit.[42] However, while Kirchner's reliance on price controls and similar administrative measures (often aimed primarily at *foreign-invested* firms such as utilities) clearly ran counter to the spirit of the Consensus, his administration in fact ran an extremely tight fiscal ship and maintained a highly competitive floating exchange rate; Argentina's immediate bounce-back from crisis, further aided by abrogating its debts and a fortuitous boom in prices of primary commodities, leaves open issues of longer-term sustainability.[43] *The Economist* has argued that the Néstor Kirchner administration will end up as one more in Argentina's long history of populist governments.[44] In October 2008, Kirchner's wife and successor as President, Cristina Kirchner, announced her government's intention to nationalize pension funds from the privatized system implemented by Menem-Cavallo.[45] Accusations have emerged of the manipulation of official statistics under the Kirchners (most notoriously, for inflation) to create an inaccurately positive picture of economic performance.[46] *The Economist* removed Argentina's inflation measure from its official indicators, saying that they were no longer reliable.[47]

In 2003, Argentina's and Brazil's presidents, Néstor Kirchner and Luiz Inacio Lula da Silva signed the "Buenos Aires Consensus", a manifesto opposing the Washington Consensus' policies.[48] Skeptical political observers note, however, that Lula's rhetoric on such public occasions should be distinguished from the policies actually implemented by his administration.[49] This said, Lula da Silva paid the whole of Brazil's debt with the IMF two years in advance, freeing his government from IMF tutelage, as did Néstor Kirchner's government in 2005.[*citation needed*]

Subsidies for agriculture

The Washington Consensus as formulated by Williamson includes provision for the redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment. This definition leaves some room for debate over specific public spending programs. One area of public controversy has focused on the issues of subsidies to farmers for fertilizers and other modern farm inputs: on the one hand, these can be criticized as subsidies, on the other, it may be argued that they generate positive externalities that might justify the subsidy involved.[*citation needed*]

Some critics of the Washington Consensus cite Malawi's experience with agricultural subsidies, for example, as exemplifying perceived flaws in the package's prescriptions. For decades, the World Bank and donor nations pressed Malawi, a predominantly rural country in Africa, to cut back or eliminate government fertilizer subsidies to farmers. World Bank experts also urged the country to have Malawi farmers shift to growing cash crops for export and to use foreign exchange earnings to import food.[50] For years, Malawi hovered on the brink of famine; after a particularly disastrous corn harvest in 2005, almost five million of its 13 million people needed emergency food aid. Malawi's newly elected president Bingu wa Mutharika then decided to reverse policy. Introduction of deep fertilizer subsidies (and lesser ones for seed), abetted by good rains, helped farmers produce record-breaking corn harvests in 2006 and 2007; according to government reports, corn production leapt from 1.2 million metric tons in 2005 to 2.7 million in 2006 and 3.4 million in 2007. The prevalence of acute child hunger has fallen sharply and Malawi recently turned away emergency food aid.[*citation needed*]

In a commentary on the Malawi experience prepared for the Center for Global Development,[51] development economists Vijaya Ramachandran and Peter Timmer argue that fertilizer subsidies in parts of Africa (and Indonesia) can have benefits that substantially exceed their costs. They caution, however, that how the subsidy is operated is crucial to its long-term success, and warn against allowing fertilizer distribution to become a monopoly. Ramachandran and Timmer also stress that African farmers need more than just input subsidies—they need better research to develop new inputs and new seeds, as well as better transport and energy infrastructure. The World Bank reportedly now sometimes supports the temporary use of fertilizer subsidies aimed at the poor and carried out in a way that fosters private markets: "In Malawi, Bank officials say they generally support Malawi's policy, though they criticize the government for not having a strategy to eventually end the subsidies, question whether its 2007 corn production estimates are inflated and say there is still a lot of room for improvement in how the subsidy is carried out".[50]

Continuing controversy

Most Latin American countries continue to struggle with high poverty and underemployment. Chile has been offered as an example of a Consensus success story, and countries such as El Salvador and Panama have also shown some positive signs of economic development. Brazil, despite relatively modest rates of aggregate growth, has seen important progress in recent years in the reduction of poverty. This is counterweight, since the last two Brazilian socialist presidents have adjusted modest socialist reforms.[*citation needed*]

Joseph Stiglitz has argued that the Chilean success story owes a lot to state ownership of key industries, particularly its copper industry, and currency interventions stabilizing capital flows. Many other economists, though, argue that Chile's economic success is largely due to its combination of sound macroeconomics and market-oriented policies (though the country's relatively strong public institutions, including one of the better public school systems in the region, also deserve some credit).[52]

There have been claims of discrepancies between the Washington Consensus as propounded by Williamson, and the policies actually implemented with the endorsement of the Washington institutions themselves. For example, the Washington Consensus stated a need for investment in education, but the policies of fiscal discipline promoted by the International Monetary Fund have sometimes in practice led countries to cut back public spending on social programs, including such areas as basic education. Those familiar with the work of the IMF respond that, at a certain stage, countries near bankruptcy have to cut back their public spending one way or another to live within their means.[53] Washington may argue for enlightened choices among different public spending priorities, but in the last analysis it is domestically elected political leaders who ultimately have to make the tough political choices.[*citation needed*]

Missing elements

A significant body of economists and policy-makers argues that what was wrong with the Washington Consensus as originally formulated by Williamson had less to do with what was *included* than with what was *missing*.[54] This view asserts that countries such as Brazil, Chile, Peru and Uruguay, largely governed by parties of the left in recent years, did not—whatever their rhetoric—in practice abandon most of the substantive elements of the Consensus. Countries that have achieved macroeconomic stability through fiscal and monetary discipline have been loath to abandon it: Lula, the recent Brazilian President (and leader of the Workers' Party), has stated explicitly that the defeat of hyperinflation[55] was among the most important positive contributions of recent years to the welfare of the country's poor. Nor have these countries in practice reversed their more open orientation to global trade and international investment in favor of a return to the policies of autarchy pursued between the 1950s and 1980s.[*citation needed*]

These economists and policy-makers would, however, overwhelmingly agree that the Washington Consensus was *incomplete*, and that countries in Latin America and elsewhere need to move beyond "first generation" macroeconomic and trade reforms to a stronger focus on productivity-boosting reforms and direct programs to support the poor.[56] This includes improving the investment climate and eliminating red tape (especially for smaller firms), strengthening institutions (in areas like justice systems), fighting poverty directly via the types of Conditional Cash Transfer programs adopted by countries like Mexico and Brazil, improving the *quality* of primary and secondary education, boosting countries' effectiveness at developing and absorbing technology, and addressing the special needs of historically disadvantaged groups including indigenous peoples and Afro-descendant populations across Latin America.[*citation needed*]

Alternative usage vis-a-vis foreign policy

In early 2008, the term "Washington Consensus" was used in a different sense as a metric for analyzing American mainstream media coverage of U.S. foreign policy generally and Middle East policy specifically. Marda Dunsky writes, "Time and again, with exceedingly rare exceptions, the media repeat without question, and fail to challenge the "Washington consensus"—the official mind-set of US governments on Middle East peacemaking over time."[57] According to syndicated columnist William Pfaff, Beltway centrism in American mainstream media coverage of foreign affairs is the rule rather than the exception: "Coverage of international affairs in the US is almost entirely Washington-driven. That is, the questions asked about foreign affairs are Washington's questions, framed in terms of domestic politics and established policy positions. This invites uninformative answers and discourages unwanted or unpleasant views."[58] Like the economic discussion above the foreign policy usage of the term has less to do with what is included than with what is missing.

A similar view, though by a different name, is taken by Fairness & Accuracy In Reporting (FAIR), a progressive media criticism organization. They note "Official Agendas" as one of nine 'issue areas'[59] they view as causing 'What's Wrong With the News?" They note: "Despite the claims that the press has an adversarial relationship with the government, in truth U.S. media generally follow Washington's official line. This is particularly obvious in wartime and in foreign policy coverage, but even with domestic controversies, the spectrum of debate usually falls in the relatively narrow range between the leadership of the Democratic and Republican parties."[60]

See also

Business and economics portal

Globalization portal

Argentina portal

- The End of History and the Last Man
- Bretton Woods system
- Macroeconomics
- Gross domestic product
- Democratic capitalism
- Economic growth
- Hyperinflation
- North American Free Trade Agreement (NAFTA)
- Central America Free Trade Agreement (CAFTA)
- World Systems Theory
- Andre Gunder Frank
- Immanuel Wallerstein
- Poverty Reduction Strategy Paper
- Structural adjustment
- Beijing Consensus
- Mumbai Consensus

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- *Latin America Transformed: Globalization and Modernity*, by Robert N. Gwynne and Cristóbal Kay (1999).
- *The Internationalization of Palace Wars: Lawyers, Economists, and the Contest to Transform Latin American States*, by Yves Dezalay and Bryant G. Garth (2002).
- *From the "Washington" towards a "Vienna Consensus"? A quantitative analysis on globalization, development and global governance*, by Arno Tausch and Christian Ghymers, Nova Science Publishers, Hauppauge, New York, 2006
- FONDAD: *Diversity in Development: Reconsidering the Washington Consensus*, edited by Jan Joost Teunissen and Age Akkerman (2004).
- The Washington Consensus as Policy Prescription for Development (World Bank)
- What Should the World Bank Think about the Washington Consensus?, by John Williamson.
- Fabian Global Forum for Progressive Global Politics: The Washington Consensus, by Adam Lent.
- The Economics of Empire - Notes on the Washington Consensus, by William Finnegan.
- Unraveling the Washington Consensus, An Interview with Joseph Stiglitz
- The Scorecard on Development, 1960-2010: Closing the Gap? - Center for Economic and Policy Research report, April 2011

- Developing Brazil: overcoming the failure of the Washington consensus/ Luiz Carlos Bresser-Pereira/ Lynne Rienner Publishers,2009

External links

- Center for International Development at Harvard University describing the Washington Consensus (**38**)
    - Cited links to the above article (**39**)
- Beyond the Washington Consensus by Jeremy Clift (**41**)

Categories: Macroeconomics Latin America International trade Globalization terminology Trade blocs 1989 introductions Neoliberalism

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Washington Consensus

The phrase "Washington Consensus" is today a very popular and often pilloried term in debates about trade and development. It is often seen as synonymous with "neoliberalism" and "globalization." As the phrase's originator, John Williamson, says: "Audiences the world over seem to believe that this signifies a set of neoliberal policies that have been imposed on hapless countries by the Washington-based international financial institutions and have led them to crisis and misery. There are people who cannot utter the term without foaming at the mouth." [1]

Williamson originally coined the phrase in 1990 "to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989." [2] These policies were:

- Fiscal discipline
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
- Tax reform (to lower marginal rates and broaden the tax base)
- Interest rate liberalization
- A competitive exchange rate
- Trade liberalization
- Liberalization of inflows of foreign direct investment
- Privatization
- Deregulation (to abolish barriers to entry and exit)
- Secure property rights

Since then, the phrase "Washington Consensus" has become a lightning rod for dissatisfaction amongst anti-globalization protestors, developing country politicians and officials, trade negotiators, and numerous others. It is often used interchangeably with the phrase "neoliberal policies." But, as Williamson also states:

> Some of the most vociferous of today's critics of what they call the Washington Consensus, most prominently Joe Stiglitz... do not object so much to the agenda laid out above as to the neoliberalism that they interpret the term as implying. I of course never intended my term to imply policies like capital account liberalization...monetarism, supply-side economics, or a minimal state (getting the state out of welfare provision and income redistribution), which I think of as the quintessentially neoliberal ideas. [1]

Clearly, the definition of the term has gone well beyond the control of Williamson and other economists. That is, if you believe it is useful to talk of a Washington Consensus. Moses Naim, the editor of Foreign Policy, has argued that no such consensus exists. Naim highlights the fact that economists are often divided over such issues as the East Asian crisis, the need for an international financial architecture, and the effectiveness of "open" trade policies. "If this sample represents the Washington Consensus, then just imagine what a Washington Confusion would be like," he says. [3]

Some of today's policy discussion, however, might still be understood by using the term as a reference point. For instance, Dani Rodrik argues that there now exists an "Augmented" Washington Consensus, which in addition to the items listed above, adds: [4]

- Corporate governance
- Anti-corruption
- Flexible labor markets
- WTO agreements
- Financial codes and standards
- "Prudent" capital-account opening
- Non-intermediate exchange rate regimes
- Independent central banks/inflation targeting
- Social safety nets
- Targeted poverty reduction

Clearly, the debate continues about the Washington Consensus, its definition, its successes and failures, and whether it even exists. As many of the Washington Consensus' policy components – however it is defined – relate directly to trade policy, it is a debate worth following.

Last updated April 2003

Washington Consensus Links

[1]Williamson, John. "Did the Washington Consensus Fail?" Outline of Remarks at CSIS. Washington DC: Institute for International Economics, November 6, 2002.

[2]Williamson, John. "What Should the World Bank Think About the Washington Consensus?" World Bank Research Observer. Washington, DC: The International Bank for Reconstruction and Development, Vol. 15, No. 2 (August 2000), pp. 251-264. [online].

[3] Naim, Moses. "Fads and Fashions in Economic Reforms: Washington Consensus or Washington Confusion?" Working Draft of a Paper Prepared for the IMF Conference on Second Generation Reforms, Washington DC: Moses Naim, October 26, 1999 [online].

[4]Rodrik, Dani. "The Global Governance of Trade as if Development Really Mattered," New York: UNDP, 2001 [online].

[5] Kanbur, Ravi. "The Strange Case of the Washington Consensus; A Brief Note on John Williamson's 'What Should the World Bank Think About the Washington Consensus?'" Ithaca: Ravi Kanbur, July 1999 [online].

[6]Naim, Moses. “Washington Consensus or Washington Confusion?” Foreign Policy. Washington, DC: Carnegie Endowment for International Peace, No. 118 (Spring 2000) [online].

[7]Rothschild, Emma. “Globalization and the Return of Europe (Who is Europe?).” Foreign Policy. Washington, DC: Carnegie Endowment for International Peace, No. 115 (Summer 1999) [online].

[8]Stiglitz, Joseph. Link to recent books: [online].

[9]Williamson, Jeffrey G. “Winners and Losers Over Two Centuries of Globalization.” NBER Working Paper No. 9161. Presented as the Annual WIDER lecture. Cambridge: Jeffrey G. Williamson, September 2002 [online].

Beyond the Washington Consensus

BY THEIR nature, the heady times of 1989 were given to hyperbole, with Francis Fukuyama declaring the “End of History.” The Berlin Wall came tumbling down and communist regimes were ousted across Eastern Europe. Soviet troops pulled out of Afghanistan. Even in China, where the military abruptly suppressed a wave of protest, an astonished world watched as a solitary man stood defiantly to halt the advance of a column of tanks in Beijing’s Tiananmen Square.

It was in this era of sweeping political change, when capitalism appeared triumphant and the Cold War was almost over, that economist John Williamson coined the term “Washington Consensus” to describe a set of market-oriented reforms that the sluggish state-directed economies of Latin America could adopt to attract private capital back to the region following the crippling debt crisis of the “lost decade” of the 1980s. As Williamson explains on the following pages, although this 10-point policy package was originally designed as a reform agenda for Latin America, it quickly became seen as a model for the wider developing world. It emphasized macroeconomic (particularly fiscal) discipline, a market economy, and openness to the world economy (at least with respect to trade and foreign direct investment).

The Washington Consensus helped fill the need for an economic policy framework following the discrediting of central planning and import-substitution trade strategies. As Moíses Naím pointed out in the spring 2000 issue of *Foreign Policy,* “The debt crisis of the 1980s and the end of the Cold War made it impossible for governments to sustain economic policies that were not anchored in sound macroeconomic policies or that were based on an adversarial posture to ward foreign investment.”

Latin American governments championed the Consensus in the early 1990s, and the policy agenda delivered some of the things it was supposed to—healthier budgets, lower inflation, lower external debt ratios, and economic growth. But unemployment rose in many countries and poverty remained widespread, while the emphasis on market openness made states vulnerable to the side effects of globalization, such as surging flows of private short-term capital that could exit a country as swiftly as they entered.

> The term became a lightning rod for those disenchanted with globalization and neoliberalism or with the perceived diktats of the U.S. Treasury.

Around the world, 10 middle-income developing countries experienced major financial crises between 1994 and 1999 that damaged living standards and, in some cases, toppled governments and left millions worse off. Suddenly, policymakers were confronted by the new issue of financial contagion—the risk of a crisis spreading from one country to another—and economists questioned the pace and sequencing of deregulation and liberalization. Markets were a bane as well as a benefit, and there was a new emphasis on the need for governments to ensure that strong domestic institutions and policies were in place before opening up their economies to flighty foreign capital.

The international financial institutions were often seen as the handmaidens of the Consensus, and the term became a lightning rod for those disenchanted with globalization and neoliberalism or with the perceived diktats of the U.S. Treasury. In September 1998, Jeffrey Sachs described the Consensus in the *Economist* as "phony" and called for "a shared stewardship between rich and poor."

The reform agenda evolved into long "must do" lists for developed and developing countries alike. The need for competitive exchange rates became the need for flexible or (maybe) firmly fixed exchange rates, with treacherous waters in between. Consensus begat Consensus. The latest version—the 2002 Monterrey Consensus—has 63 action points, including not just aid and economic issues, but also governance, corruption, and human rights.

Today, there is fresh debate about the way forward and the role of the international financial institutions. Many regions, including Latin America and Africa (see pages 14–20), have their own agendas, complemented by a complex international package of development goals and trade negotiations, and Williamson is now promoting a revised blueprint that he hopes will leave behind the "stale ideological rhetoric of the 1990s." What is his new agenda called? Anything but "Washington Consensus II," he suggests.

Jeremy Clift

FINANCE and DEVELOPMENT
A quarterly magazine of the IMF

September 2003
Volume 40, Number 3

Redrafting the Reform Agenda

Also in This Issue

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What exchange rate and monetary regime a country should choose is a perennial question for many governments, particularly in Latin America. Should the region adopt a common currency, or are floating exchange rates a better choice? (77 kb, pdf file)

the Millennium Development Goals. (kb, pdf file)

Making Services Work for Poor People

Shantayanan Devarajan and Ritva Reinikka
To escape from poverty, the poor in developing countries need more access to, and more control over, essential services like health care, education, clean water, and sanitation. (53 kb, pdf file)

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From the Editor (50 kb, pdf file)

Letters to the Editor

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Prakash Loungani
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The Middle East and North Africa

Statistics on growth, trade, unemployment, and government budgets; social indicators; and institutional quality index. (179 kb, pdf file)

Straight Talk

More Cheerleading or More Whistle-Blowing?

Kenneth S. Rogoff
The IMF should speak out more clearly and forcefully when it thinks countries may be headed for trouble. (33 kb, pdf file)

Unfortunately the political perception of Islam , which also mean the Middle East specifically by the West, is a region that only provides natural resources and does not allow margin for political plans that can match economics â€“ identity â€“ religion with one single purpose. The main argument that arises here is that, why, if Modern Economic achieves the progress to Godâ€™s aim, should Islam be denied of that right?Â (1990) â€˜What Washington means by Policy Reform.â€™ Peterson Institute for International Economics [Online]. Available from: http://www.iie.com/publications/papers/paper.cfm?ResearchID=486 [Accessed 18 April 2012]. Williamson, John. (1999) â€˜Economic Reform: Content, Progress, Prospects.â€™ Peterson Institute for International Economics [Online]. The Washington Consensus (WAC) is at its core based around ten policy recommendations. The recommendations are as follows: (1) Fiscal Discipline; (2) Restructuring Public/Social Expenditure Priorities; (3) Tax Reform; (4) Liberalizing Interest Rates; (5) Competitive Exchange Rates; (6) Trade Liberalization; (7) Liberalization of Inward Foreign Direct Investment; (8) Privatization; (9) Deregulation; and, (10) Property Rights (Williamson, 2004: 3-4).Â 2002. â€œWhat Washington means by policy reform.â€ Peterson Institute for International Economics . Retrieved from Washington, D.C.: Migration Policy Institute, January. PÃ©coud, Antoine (2006). Circulations migratoires et contrÃ´les aux frontiÃ¨res.Â Williamson, John (1990). What Washington means by policy reform. In Latin American Adjustment: How Much Has Happened?, John Williamson, ed. Washington, D.C.: Institute for International Economics.