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THE CO-EVOLUTION OF THE WASHINGTON CONSENSUS AND THE ECONOMIC DEVELOPMENT DISCOURSE

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The Co-Evolution of the Washington Consensus and the Economic Development Discourse

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Abstract

In this paper I give an account of development debates of the past two decades, focusing on the Washington Consensus and on the broader economic development discourse in historical context. Section 2 gives a basic account of the Washington consensus and how its meaning changed from the original formulation. Section 3 presents the evolution of the economic development discourse since the second-world-war, through the 1980s, up to the present. Section 4 asks if there is now a new consensus on economic development, in light of the recent report of the Commission on Growth and Development. Section 5 concludes.

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1. Introduction

The 1980s were a hell of a decade. They began with the reverberations of the second OPEC oil shock. They ended with the fall of the Berlin wall. In between, we had the Reagan-Thatcher-Kohl economic policy era in North America and Europe, the Volcker interest rate shock, the Latin American debt crisis, collapse in Africa, the start of rapid growth in China and in India, and on and on. Oh, and by the way, in 1989 John Williamson coined the term "Washington Consensus."[1]

The intellectual history of this term over the past two decades is intimately tied in with the economic history of this period, just as its origins were tied to the economic history of the 1980s. But the term and its meanings have also interacted with a broader discourse on economic development—in particular, how government policies and interventions can help or harm development. In fact, the Washington Consensus, the development discourse, and actual economic policy and outcomes, have all co-evolved over the past twenty years, each influencing and being influenced by the others. The 1990s and 2000s have been no less interesting and eventful than the 1980s, including: an acceleration in global integration in trade and financial flows, "shock therapy" in the formerly communist countries, the East Asian financial crisis, rapid growth in a number of Asian countries and spectacular growth in China with perhaps the most dramatic reduction in income poverty in history, sharp increases in inequality in rapidly growing countries, and so on.

In this paper I give an account of the development debates of the past two decades, focusing on the Washington Consensus and on the broader economic development discourse in the historical context. Section 2 gives a basic account of the Washington consensus and how its meaning changed from the original formulation. Section 3 presents the evolution of the economic development discourse since the second-world-war, through the 1980s, up to the present. Section 4 asks if there is now a new consensus on economic development in light of the recent report of the Commission on Growth and Development. Section 5 concludes.

My focus in this paper is primarily on the economic, and relates naturally to my own academic writings and my own policy experience. In this sense the account will be somewhat idiosyncratic. But I hope that it will provide sufficient food for wider thought and debate.

[1] Williamson (1990).

2. The Washington Consensus—Mutation of Meanings

The best account of how the "Washington Consensus" was coined and formulated is given by John Williamson himself (Williamson, 2003). It is quoted in full in Box 1, so we are on the same page with the original content as envisaged by the author.

Box 1

The Origin of the Washington Consensus

"The story of the Washington Consensus dates back to 1989, when the press in the United States was still talking about how Latin American countries were unwilling to undertake the reforms that might give them a chance to escape the debt crisis. It seemed to me that this was a misconception and that, in fact, a sea change in attitudes toward economic policy was occurring. To determine whether this was correct, the Institute for International Economics decided to convene a conference at which authors from 10 Latin American nations would present papers detailing what had been happening in their respective countries. To try to make sure that they all addressed a common set of questions, I wrote a background paper in which I listed 10 policy reforms that I argued almost everyone in Washington thought were needed in Latin America as of that date. I labeled this reform agenda the "Washington Consensus," never dreaming that I was coining a term that would become a war cry in ideological debates for more than a decade. Indeed, I thought the ideas I was laying out were consensual, which is why I gave them the label I did. The 10 reforms that constituted my list were as follows:

Fiscal discipline. This was in the context of a region where almost all the countries had run large deficits that led to balance of payments crises and were experiencing high inflation that hit mainly the poor because the rich could park their money abroad.

Reordering public expenditure priorities. This suggested switching expenditure, in a progrowth and propoor way, from things like nonmerit subsidies to basic health care, education, and infrastructure.

Tax reform. The aim was a tax system that would combine a broad tax base with moderate marginal tax rates.

Liberalization of interest rates. In retrospect, I wish I had formulated this more broadly as financial liberalization, stressed that views differed on how fast it should be achieved, and recognized the importance of accompanying financial liberalization with prudential supervision.

A competitive exchange rate. I fear I indulged in wishful thinking in asserting that there was a consensus in favor of ensuring that the exchange rate would be competitive, which implies an intermediate regime; in fact, Washington was already beginning to edge toward the two-corner doctrine, which holds that a country must either fix firmly or float "cleanly."

Trade liberalization. I acknowledged that there was a difference of view about how fast trade should be liberalized, but everyone agreed that this was the appropriate direction in which to move.

Liberalization of inward foreign direct investment. I specifically did not include comprehensive capital account liberalization because I did not believe that it commanded a consensus in Washington.

Privatization. This was the one area in which what originated as a neoliberal idea won broad acceptance. We have since been made very conscious that it matters a lot how privatization is done: it can be a highly corrupt process that transfers assets to a privileged elite for a fraction of their true value, but the evidence is that privatization brings benefits (especially in terms of improved service) when done properly, and the privatized enterprise either sells into a competitive market or is properly regulated.

Deregulation. This focused specifically on easing barriers to entry and exit, not on abolishing safety or environmental regulations (or regulations governing prices in a noncompetitive industry).

Property rights. This was primarily about providing the informal sector with the ability to gain property rights at an acceptable cost (inspired by Hernando de Soto's analysis)."

Williamson (2003)

Although he writes that in 1989 he was reporting factually on what was the consensus among certain key constituencies, both in that original paper (Williamson, 1990), and in the commentary above from Williamson (2003), there is a strong strain of what the policy reforms should be—the normative is quite closely tied to the positive. With this in mind, I think those who use the label Washington Consensus as interchangeable with "neo-liberal" or "market fundamentalist" would be and should be surprised to read the above account. For example, how many people know that "Reordering public expenditure priorities" to switch towards basic health care and education was number 2 in the original list of 10? Or that while liberalization of trade and foreign direct investment was on the list, capital account liberalization was *not*? Or that "Deregulation" did not include the abolition of safety or environmental regulations, or of regulation of prices in non-competitive industries? Other items of commentary, given above, or in Williamsons other writings[2], also indicate that, at least in the mind of the originator, the Washington Consensus was not the same as, perhaps even nowhere near, a "neo-liberal" or "market fundamentalist" agenda.[3] Clearly, something strange happened.

What explains the evolution of the term from its meaning as originally coined, to representing one side of an ideological divide which structured much of the development discourse in the 1990s? In Kanbur (1999), commenting on Williamson (1999), I offered the following explanation, based on my operational experience within the World Bank:

> "It might be useful to start with the observation that the Washington Consensus became what it did, not what it said. For example, Williamson notes that "when I reviewed the progress Latin American countries had made implementing the recommended set of policies several years later, I concluded that the least progress had been made in implementing the second policy, redirecting public expenditure policies." Well, is it not then understandable that those in civil society who saw outcomes rather than read Williamson's original paper, would conclude that the Washington Consensus did not contain item number 2? The same is true of the other items, where those in developing countries might have seen positions espoused, by representatives of Washington institutions, which were not as nuanced as Williamson's original or more recent formulations.
>
> And here we come to what to me is the most important point. Mindset, and stance, are all important. There is no question in my mind that in the 1980s, and to a certain extent well into the 1990s, many saw the main task as being storming the citadel of statist development strategies. In this mindset, nuances were beside the point— intellectual curiosities which paled in comparison to the benefits of rapid and deep movements away from the former paradigm. And, moreover, Washington institutions were deeply suspicious of the real intentions of those they were dealing with. They suspected, perhaps rightly, that those on the other side were hell bent on preserving the status quo. In this setting, a negotiating stance, rather than a dialogue based on mutual comprehension, was appropriate. So the negotiators from Washington always took a more purist stance, a more extreme stance than even their own intellectual framework permitted (they were all surely well schooled in the theory of the second best). "Give them an inch of nuance, and they'll take a mile of status quo", seemed to be the mindset and the stance. "If you want 28 enterprises privatized, start by asking for 56", seemed to be the opening gambit. Is it any wonder then, that those on the other side came away with the impression that those from Washington had a consensus, and one which did not match Williamson's nuanced formulation?"

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[2] For example, Williamson (1999, 2002, 2004)

[3] Just one example, picked almost at random, will illustrate what I have in mind. In an entry on April 14, 2008, Tony Karon's "Rootless Cosmopolitan" blog provides commentary on rising food prices and concludes as follows: "The interesting thing, though, is that solving this particular crisis will require that the World Bank and IMF abandon the economic orthodoxy that they imposed globally during the 1990s — the "Washington consensus," that frowns on things like government spending on feeding the poor." One sees this use of the Washington Consensus al the time.

Still, all this is perhaps by the by. What matters is not so much the label but the content, and on that there is little disagreement. Development strategies, broadly construed, can be put on a spectrum, with less market orientation, less integration into the world economy, more regulation of economic activity, greater role for public provision of social services, more redistribution, etc., at one end; and the opposite at the other end. Neo-liberal might be one term to describe combinations towards the "right" of the spectrum. What term to use for the "left" end of the spectrum is not entirely clear—"progressive", "liberal" (in the US sense), "statist"; each of these, or any other term, is liable to cause confusion. It is a measure of the difficulties of nomenclature that the unwieldy "non-neo-liberal" might be the least confusing appellation—at least in relation to the other end of the spectrum being labeled "neo-liberal." Further, in recent years "globalizers" and "anti-globalizers" have also been used to describe the two ends of the spectrum, although technically speaking globalization should apply only to external dimensions of economic policy. I will use many different terms in this paper, but perhaps the "left" and "right" end of the spectrum is best descriptive of the linear representation adopted above, as well as suggestive of political orientation, but only suggestive of course. An important point, however, is that what we have in terms of policy space is a continuum—it is not a case of one or the other, but rather one of having a combination of policies whose center of gravity is closer to one end rather than the other. How have these combinations changed and shifted over the six decades since the second-world-war, including during the last two decades after the christening of the Washington consensus?

3. The Economic Development Discourse Since the Second World War[4]

The sixty years since the end of the second-world-war have seen cycles of consensus among the economic policy making elite. The center of gravity of where to locate economic policies along the non-neo-liberal to neo-liberal continuum, from "left" to "right", and in what combinations, has moved first one way and then another. It is worth reprising this history, to better locate the emergence of the Washington Consensus in its era, and its evolution since then.

The quarter century after the second-world-war saw the peak of the inward-oriented, state-oriented development paradigm driven by an acceptance of the pervasiveness of market failures (or non-existence of many markets) in developing countries. Export pessimism was the rationale for import-substitution strategies. The perceived success of Keynesian policies in restoring full employment in the industrialized west after prolonged high unemployment in the 1930s, and of the Soviet Union in transforming itself from an agrarian nation at the time of the communist revolution to an industrial power in the 1930s, 40s and 50s, was the spur to setting up of the Indian Five Year Plans, with their objectives of aggregate demand management and heavy investment

[4] Some of this section is based on Kanbur (2004)

in state industries behind walls of tariff protection.[5] The newly independent countries in Africa followed a similar path, setting up marketing boards as purchasing and selling intermediaries to protect their farmers from the vagaries of world market prices and the perceived exploitation by middlemen traders, a range of state controlled industries to process raw material, and more.

Agencies like the World Bank, surprising though it may seem today, were in full support of such strategies. After all, Keynes designed the International Bank for Reconstruction and Development as a publicly owned entity to mediate between sources of finance (essentially, Wall Street), and European and Japanese infrastructure reconstruction. As attention shifted from reconstruction of Europe and Japan to the development of countries in Asia, Africa and Latin America, the statist thrust remained. The World Bank financed many of the state enterprises that were producing behind import barriers in countries that emerged from successive waves of the post-war decolonization. Economic growth rates in Asia, Africa and Latin America were creditable by historical standards and, in countries like Brazil, remarkably high.

The statist approach of the 1940s and 1950s was not without its critics—for its insensitivity to distributional issues, that is. The emphasis on heavy industry, whatever its impact on investment and on economic growth, was argued to be not helping the poor. In Brazil, the high growth period of the 1960s was accompanied by increasing inequality with the result that the impact on poverty was dissipated. In India, after the first two five year plans, covering 1951-56 and 1956-61, the third Five Year Plan (1961-66) began a period of explicit focus on poverty and the poor, with special attention being paid to agriculture, where the bulk of the poor worked. This emphasis continued in the fourth and fifth five year plans. Prime Minister Indira Gandhi's slogan for the election of the early 1970s was "Garibi Hatao" ("End Poverty").

The international agencies were undergoing a similar transformation. The President of the World Bank, Robert McNamara, made his famous Nairobi speech in 1973, in which he spoke of "absolute poverty: a condition of life so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities and a condition of life so common as to be the lot of some 40% of the peoples of the developing countries." He spoke of the rural poor, and defined rural development as a development goal. The ILO introduced the "basic needs" approach to development, and the "informal sector" as a key component of urban poverty. The World Bank's Chief Economist, Hollis Chenery, published a volume called "Redistribution with Growth" (Chenery, 1974).

The statist and import-substitution approach to development continued, however. During the fourth Five Year Plan in India, major national banks were nationalized. Latin America and Africa continued on their route of import substitution and nationalization strategies. But in the 1960s and 70s there emerged a story of development success which was to have a major impact on the development discourse. This was the "growth with

[5] The influence of Fabian Socialism on Indian Prime Minister Nehru is well documented. His technical advisers were similarly oriented. To take one example, V.K.R.V. Rao had been a student of Keynes at Cambridge.

equity" experienced by the East Asian economies of South Korea, Taiwan and Malaysia. In these economies, income poverty had fallen significantly in the wake of historically high growth rates. There was consensus on the distributional side of the story—land reform in South Korea and Taiwan (imposed by Americans after the war), early spread of basic education, and growth of demand for unskilled labor in labor intensive export industries.

It is the last of these outcomes that set in train the calls for trade liberalization which framed the development debate for the next two decades, and continue to do so today. That the East Asian economies had rising unskilled wages, that there was increasing employment in light industries manufacturing for exports, is agreed. But how exactly this came about, and its policy implications for other countries, is disputed. In particular, the importance of sequencing, of starting with protection and then gradually opening up, is much debated. At the same time the role of the financial sector, the extent to which it was regulated and directed to provide credit for key industries, is also an exhibit in clash of evidence on whether the "East Asia miracle" owes its emergence to policies at the "left" end of the spectrum or the "right" end of the spectrum discussed earlier.

The 1970s were thus a decade of considerable rethinking of the economic development paradigm that had dominated the previous three decades. The macro level policies of trade protection and heavy state intervention in industry was criticized from the "left" for not giving distribution sufficient attention, and from the "right" for giving insufficient attention to trade and to the private sector.

There things stood till the 1980s, which as I said at the start, was a hell of a decade. There was a swing away from postwar Keynesianism in Europe and North America, which had its own political economic logic. As the first OPEC oil shock of 1973 and then the second OPEC oil shock of 1979 worked their way through the system they led to severe balance of payments difficulties for non-oil exporting countries in Latin America, Asia and Africa. The US Federal Reserve, under Paul Volcker, raised interest rates dramatically to squeeze inflation out of the system in the US, with a resultant rise in the dollar. But this led to unsustainable debt repayment burdens (mostly dollar denominated) for many countries in Latin America, with a debt crisis and a generalized macroeconomic crisis in those countries and several others with heavy exposure to external debt.

The macroeconomic crises of developing countries had an inextricable external dimension. The immediate crisis was one of lack of foreign exchange to service debts and purchase imports. In this context, trade liberalization was advanced as a solution to generate foreign exchange through exports. The crisis arguments meshed with longer term arguments on the efficacy of inward looking versus outward oriented development strategies. Where necessary, the case was bolstered further by the argument that such a strategy would increase demand for unskilled labor and hence unskilled wages, as had happened in East Asia. But the main thrust of the argument was that integration into the global economy was the best strategy for economic growth, and growth was the best route to poverty reduction.

Then came 1989, the fall of the Berlin wall, and the triumphalism of "the end of history". This was the culmination of the general pressure for reducing the role of the state in the economy that had started in the 1970s in Europe and North America and saw its apogee in the Reagan-Thatcher-Kohl era. With the collapse of the communist statist system (the writing was on the wall in the early 1980s in any event), the lessons for developing countries also seemed clear. Just as the Soviet successes of the 1930s, 40s and 50s had inspired the first two Indian Five Year plans, and had continued to influence the next three, the sixth and seventh Five Year plans (1980-85 and 1985-89) began the process of economic liberalization. Key price controls were abolished. After a period of political instability, in 1991 major external liberalization measures were announced, and the gradual opening of the Indian economy was undertaken during the eighth Five Year plan period (1992-97).

In Africa, external liberalization was undertaken, the most obvious indicator of which was the freeing of the exchange rate from controls and rationing in most of Eastern and Southern Africa, and gradual removal of quantitative trade restrictions and lowering of tariffs. In Latin America, similar external sector liberalizations were undertaken. In all countries, the debt burden meant significant austerity in public sector budgets as balance was sought between revenue and expenditure. In the formerly communist transition economies of Eastern Europe, the early 1990s saw regimes of "shock therapy" as economies were opened up and privatized "at a stroke."

The 1980s and 1990s also saw the opening up and integration of China into the global economy (formally, the Chinese process began in 1978). While politically communist, China increasingly took on the characteristics of a market economy, with peasants being allowed to keep what they produced, inward foreign investment, and spectacular increases in exports, investment and economic growth. At least 200 million Chinese have been lifted out of income poverty since the opening up began in 1978, perhaps the most dramatic reduction in poverty in history.

Thus during the 1980s and 1990s the economic development discourse took a distinct turn away from the previous consensus among the economic policy making elite. Williamson (1990) specifies that the "Washington" of the Washington consensus 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." In Kanbur (2001) I identify what I call a "Ministry of Finance tendency":

> "In this group would obviously be some who worked in finance ministries in the North, and in the South. It would also include many economic analysts, economic policy managers and operational managers in the IFI's and the Regional Multilateral Banks. A key constituent would be the financial press, particularly in the North but also in the South. Finally, one would include many, though not all, academic economists trained in the Anglo-Saxon tradition."

Obviously, these are tendencies and not hard and fast classifications. "There are clearly people who work in the IFIs who are not "Finance Ministry types", just as there are academic economists trained in the Anglo-Saxon tradition who would, for example, caution

strongly on capital account liberalization" (Kanbur, 2001). But they are recognizable, I think, as a constituency that held views at the "right" end of the policy spectrum identified earlier. In this sense the 1980s and 1990s saw a swing towards this constituency—although it should be emphasized that these very same constituencies (not necessarily the same individuals) were at the other end of the spectrum in an earlier era.

But the challenges to the new consensus were not slow in appearing, and many of them were in any case embedded in the previous discourse. As I said at the start of Kanbur (2001): "The end of history lasted for such a short time." I will argue that these challenges in turn have led to a modification of the center of gravity of the consensus along the spectrum from "right" to "left." A number of outcomes in the 1980s and 1990s contributed to the challenges, and to the challenges being effective. I will pick five examples to illustrate.

First, the East Asia crisis of 1997 was a major blow to those who were arguing for rapid capital account opening to move further to the "right" along the spectrum. The debate on this among economists was interesting because they were split. It is not surprising that those who were generally skeptical of a strong move to the "right", such as Stiglitz (2002) would oppose capital account liberalization. What might surprise some is that economists like Jagdish Bhagwati, a staunch supporter of trade liberalization and of foreign direct investment, was equally strongly against the hasty liberalization of financial flows that was advocated, encouraged and sometimes imposed in the 1980s and 1990s. Bhagwati's position is worth quoting at length as an antidote to the simplistic classifications one sometimes finds of "pro" or "anti" free market positions.

> "Starting in Thailand in the summer of 1997, the Asian financial crisis swept through Indonesia, Malaysia, and South Korea, turning the region's economic miracle into a debacle….The crisis, precipitated by panic-fueled outflows of capital, was a product of hasty and imprudent financial liberalization, almost always under foreign pressure, allowing free international flows of short-term capital without adequate attention to the potentially potent downside of such globalization. There has been no shortage of excuses and strained explanations scapegoating the victims, suggesting they committed hara-kiri instead of being slaughtered. It is hard not to conclude that the motivation underlying these specious explanations is a desire to continue to maintain ideological positions in favor of a policy of free capital flows or to escape responsibility for playing a central role in pushing for what one might aptly call gung-ho international financial capitalism." (Bhagwati, 2004, pp199-200)

This from a man who also wrote, in the same book:

> "In short, I argue that the notion that globalization needs a human face—a staple of popular rhetoric that has become a dangerous cliché--is wrong, It raises a false alarm. Globalization *has* a human face, but we can make that face yet more agreeable." (Bhagwati, 2004, p x)

In any event, the East Asia crisis led to a reconsideration of financial flows liberalization, with the result that even the IMF is now more cautious in advocating this move.[6]

[6] See for example the paper by two former senior IMF officials, Prasad and Rajan (2008), which reflects current thinking in the IMF.

The second set of "facts on the ground" which posed a challenge to the emerging consensus on economic policy for development in the 1990s was the disastrous experience of most transition economies of Eastern Europe. It was suggested humorously by some that the "shock therapy" of rapid privatization and quick integration into the world economy was "more shock than therapy." These economies underwent exactly the opposite of the East Asian miracle of the 1960s and 1970s—instead of growth with equity they had economic decline with increasing inequality. This outcome was attributed, by many economists, like Stiglitz (2002), and by the populations of these countries, to an overly hasty and radical move from a statist past to a market oriented future without regulatory safeguards and without safety nets. These economies are only now recovering from economic decline, some two decades after the transition began, and the inequalities introduced into the system by rapid privatization are now part of the economic and political structure of countries like Russia.

Third, more generally, many countries in Africa and Latin America which followed the prescriptions of greater trade openness and greater reliance on markets did not reap the growth benefits that were touted for them. Even those which grew, like Ghana, found the results to be short of what had been promised. But many in Latin America in particular had slow growth rates, leading to entire decades being described as "lost."[7]

Fourth, the rapid growth of India and China, and the recognition that these countries have not followed the neo-liberal prescriptions a l'outrance, has influenced the discourse. Both countries have adopted a more outward oriented development strategy than in the past—China since the 1980s, India since the 1990s. But both countries maintained controls on capital flows, and as a result escaped the repercussions of the East Asian crisis. China has deployed its internal financial system to maintaining an undervalued exchange rate, a key reason for its dramatic export performance. And both countries have continued to use domestic redistribution to address rising inequality.

The fifth set of outcomes is in fact the sharp increases in inequality within rapidly growing countries over the past twenty years. Whether it is China, India, Bangladesh, Vietnam, Russia, Ghana, South Africa, Mexico, etc., and in contrast to the East Asian experience of the 1960s and 1970s, rapid growth seems to be accompanied by rising inequality. This has been matched by rising inequality within OECD countries, as the post-war phase of the "the great compression" of skilled-unskilled wage differentials ended in the 1980s and economic returns to skills and education began to increase dramatically. For developing countries, even when official poverty statistics have come down because of rapid growth, distributional concerns persist in society and policy makers. In India in 2004, a party with the slogan "India Shining" was defeated by a party with the slogan "The Common Man", leading, for example, to the National Rural Employment Guarantee Act, which introduced a massive public works scheme designed to address low incomes in rural areas. In South Africa, the post-apartheid euphoria has been dampened by rising inequalities, including within the black population. In Latin America, a wave of populist leaders has been elected on the strength of concerns about rising inequality and vulnerability. In China, even if there is no formal western style democracy, and even with a

[7] See for example Easterly (2001)

brilliant performance on growth and poverty reduction, policy makers are worried about growing disparities between people and between regions. They have begun to intensify redistributive measures.[8]

These and other developments in the last two decades, particularly in the last decade, have led to considerable rethinking in the economic development discourse. Does this mean there is a new consensus? The next section takes up that story.

4. A New Consensus?

The challenges to the "Washington Consensus"—to what it became, if not to what it was—have come in the journal discourse of academia, in the urgency of policy settings, in the heat of civil society discourse, and in tear gas on the streets from Cochabamba to Seattle. The initial reaction to the challenges was one of circling the wagons—I discussed the "negotiating mindset" in Section 2. The US Treasury took strong positions on the benefits of global integration and private markets, and was a major player in influencing the IMF to go for capital account liberalization in the early 1990s.[9] It further pushed rapid privatization in Eastern Europe, and trade liberalization in developing countries of Africa and Asia and Latin America. Particularly at the end of the 1990s, with street battles in Seattle and the sieges of the Annual Meetings of the World Bank and the International Monetary Fund, positions were sharply divided between what I have called the "Ministry of Finance tendency" and the "Civil Society tendency"[10] It did not seem as though there could be any sort of consensus on economic policy, poverty and distribution.[11]

And yet, as the 1990s and the 2000s wore on, and as the "facts on the ground" began to accumulate as discussed in the previous sections, a discernible shift did begin to take place in the economic development discourse. I have already mentioned the turnaround in the IMF's (and the US Treasury's) position on capital account liberalization. More recently have come reassessments of their positions on trade liberalization by economists like Lawrence Summers, who were in the forefront of arguing for and pushing for rapid global integration. Rising inequality in the US and Europe has tempered their zeal and seems to have occasioned a broader rethink:

> "Continuing to assert that protection is bad and that globalization is inevitable and therefore governments should do more to help the losers while at the same time ignoring the challenge that globalization poses to progressive taxation and other policies to assure that economic progress is widely shared is I believe a prescription for failure. True friends of global integration and of the developing world

[8] These issues are discussed in Kanbur (2007).
[9] The institutional story of the time is well documented in Blustein (2001, 2005)
[10] "This group would obviously include analysts and advocates in the full range of advocacy and operational NGO's. There would also be people who worked in some of the UN specialized agencies, in aid ministries in the North and social sector ministries in the South. Amongst academics, non-economists would tend to fall into this group." (Kanbur, 2001).
[11] I had a small part in the controversies of the time, when I resigned as the Director of the World Bank's World Development Report on Poverty in May of 2000 and returned to Cornell. I wrote about the analytical dimensions of the disputes in Kanbur (2001).

will work to design more ways to insure that a more integrated and prosperous global economy is one from which all will benefit." Summers (2008)

Such statements have been characterized as "recantation". In the article to which Summers (2008) is a response, Kapur, Mehta and Subramanian (2008) note the following:

"The problem Mr. Summers identifies, the hyper-mobility of capital, was an outcome that he and the US actively promoted. Attracting foreign capital was one of the *raisons d'être* of the Washington Consensus-based reforms. Developing countries were forced to change their intellectual property laws. At the US Treasury, Mr. Summers was a leading proponent of capital account liberalisation by developing countries. Having swallowed those bitter pills of intellectual property protection and capital mobility as a necessary price for a better future, developing countries are now told that those medicines cause problems that need more – in this case protectionist – medication."

In any event, there seems to be considerable repositioning going on in the economic policy discourse. As David Wessel (2007) of the Wall Street Journal notes:

"A new argument is emerging among the pro-globalization crowd in the U.S., the folks who see continued globalization and trade as vital to the country's prosperity: Tax the rich more heavily to thwart an economically crippling political backlash against trade prompted by workers who see themselves -- with some justification -- as losers from globalization."

The above arguments by Summers focus on trade and inequality in the US and in rich countries. But a similar rethink is underway on policy for developing countries, especially in light of the sharp increases in inequality that have been seen there in the past two decades. On trade liberalization, more nuanced views on its impact on growth (Rodrik, 2007), and on distribution (Harrison, 2007) have begun to be heard more loudly. An altogether more nuanced view on development policy, based on the lessons of the 1990s, is presented in a recent report from the World Bank (2005). In fact, Dani Rodrik (2008b) best articulates the current state of the discourse on economic development more generally when he renders the following verdict on the globalization debate:

"There was a time when global elites could comfort themselves with the thought that opposition to the world trading regime consisted of violent anarchists, self-serving protectionists, trade unionists, and ignorant, if idealistic youth. Meanwhile, they regarded themselves as the true progressives, because they understood that safeguarding and advancing globalization was the best remedy against poverty and insecurity.…But that self-assured attitude has all but disappeared, replaced by doubts, questions, and skepticism. Gone also are the violent street protests and mass movements against globalization. What makes news nowadays is the growing list of mainstream economists who are questioning globalization's supposedly unmitigated virtues….While these worries hardly amount to the full frontal attack mounted by the likes of Joseph Stiglitz, the Nobel-prize winning economist, they still constitute a remarkable turnaround in the intellectual climate. Moreover, even those who have not lost heart often disagree vehemently about the direction in which they would like to see globalization go".

On the distributional front, direct interventions to mitigate the worst outcomes of poverty and rising inequality, through Conditional Cash Transfers, have exploded in Latin America, starting with Mexico's Progresa-Oportunidades program. Now most countries have such programs, including for example Brazil's Bolsa Familia.[12] The broad concern with distributional outcomes is reflected in the adoption of the Millennium Development

[12] I discuss these and other emerging aspects in the poverty and distribution discourse in Kanbur (2008).

Goals by the world development community in 2000. These include reduction of income poverty, but other goals such as reducing infant mortality, improving education for the poorest, and so on.[13] The broad objective of human development had been advocated by the UNDPs Human Development Reports since the 1990s—they have become more prominent, and in terms of exposure now are on par with the World Bank's World Development Reports.

Perhaps the best example of the rethink that is underway in economic intellectual and policy circles is evidenced by the report of the Growth Commission (Commission on Growth and Development, 2008). This is a Commission headed by Nobel Prize winning economist Michael Spence, with the other academic on it being another Nobel Prize winning economist, Robert Solow, the father of the modern theory of economic growth. All of the other 19 names on the Commission are non-academics, most of them current or former policy makers. The full membership of the Commission is given in Box 2. I have taken the unusual step of naming all the Commissioners because who they are is central to my argument. As a collectivity this is surely as close as one gets to what I have called the "Ministry of Finance tendency" (Kanbur 2001), or what Williamson (1990) meant by the "Washington" of the Washington consensus (suitably extended to include elite decision makers in developing countries).

Box 2

Membership of the Growth Commission

Montek Ahluwalia, Deputy Chairman of the Panning Commission of India; **Edmar Bacha**, former President of the National Development Bank of Brazil; **Boediono**, Governor of the Central Bank of Indonesia; **Lord John Browne**, former CEO of British Petroleum; **Kemal Dervis**, former Finance Minister of Turkey and current Administrator of the United Nations Development Program; **Alejandro Foxley**, Minister of Foreign Affairs of Chile; **Goh Chok Ton**; Chairman of the Monetary Authority of Singapore; **Hand Duck-soo**, former Prime Minister of South Korea; **Danuta Hubner**, Commissioner for Regional Policy, European Commission, Poland; **Carin Jamtin**, former Minister for International Development, Sweden; **Pedro-Pablo Kuczyniski**, Former Prime Minister of Peru; **Danny Leipziger**, Vice President of the World Bank; **Trevor Manuel**, Finance Minister of South Africa; **Ngozi Okonjo-Iweala**, former Finance Minister of Nigeria and now Managing Director of the World Bank; **Mahmoud Mohieldin**, Minister of Investment of Egypt; **Robert Rubin**, former Treasury Secretary of the USA; **Robert Solow**, Nobel Laureate in Economics; **Michael Spence**, Nobel Laureate in Economics; **Dwight Venner**, Governor of the Easter Caribbean Central Bank; **Ernesto Zedillo**, former President of Mexico; and **Zhou Xiaouchuan**, Governor of the Central Bank of China.

[13] For the MDG report, see United Nations (2007).

Well, what is the Commission consensus, in light of the debates and discussion I have reviewed in this section and the last? I give a flavor of the Commission's report by quoting at length from the Overview in Box 3—perforce selectively but I hope representatively. Perhaps mindful of the possible criticism that the stance taken by the Commission might be viewed as being too general, the Commission do get specific and present a list of what they call "bad ideas" for development policy, where "the overwhelming weight of evidence suggests that such policies involve large costs," but they do hasten to add that these are suggestions which should be discussed in specific contexts. These "bad ideas" are reproduced in Box 4.

Box 3

Growth Commission Overview

"Growth is not an end in itself. But it makes it possible to achieve other important objectives of individuals and societies. It can spare people *en masse* from poverty and drudgery. Nothing else ever has. It also creates the resources to support health care, education, and the other Millennium Development Goals to which the world has committed itself. In short, we take the view that growth is a necessary, if not sufficient, condition for broader development, enlarging the scope for individuals to be productive and creative." (p 1)

"The report …does not provide a formula for policy makers to apply—no generic formula exists. Each country has specific characteristics and historical experiences that must be reflected in its growth strategy. But the report does offer a framework that should help policy makers create a growth strategy of their own. " (p 2)

"Growth of 7 percent a year, sustained over 25 years, was unheard of before the latter half of the 20th century. It is possible only because the world economy is now more open and integrated…. [G]rowth strategies that rely exclusively on domestic demand eventually reach their limits. The home market is usually too small to sustain growth for long, and it does not give an economy the same freedom to specialize in whatever it is best at producing. (p 2)

"Reforms may be admirable and represent major achievements, but if growth does not accelerate, or if large numbers of people do not feel any improvement in their circumstances, then there is more work to do. Relying on markets to allocate resources efficiently is clearly necessary (there is no known, effective substitute), but that is not the same thing as letting some combination of markets and a menu of reforms determine outcomes." (pp 3-4)

"Wedded to the goal of high growth, governments should be pragmatic in their pursuit of it. Orthodoxies apply only so far…. At this stage, our models or predictive devices are, in important respects, incomplete…. It is, therefore, prudent for governments to pursue an experimental approach to the implementation of economic policy…. Governments should sometimes proceed step by step, avoiding sudden shifts in policy where the potential risks outweigh the benefits. (p3)

"In recent decades governments were advised to "stabilize, privatize and liberalize." There is merit in what lies behind this injunction—governments should not try to do too much, replacing markets or closing the economy off from the rest of the world. But we believe this prescription defines the role of government too narrowly. Just because governments are sometimes clumsy and sometimes errant, does not mean they should be written out of the script. On the contrary, as the economy grows and develops, active, pragmatic governments have crucial roles to play. (p4)."

"The Commission strongly believes that growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. But equal opportunities are no guarantee of equal outcomes. Indeed, in the early stages of growth, there is a natural tendency for income gaps to widen. Governments should seek to contain this inequality, the Commission believes, at the bottom and top ends of the income spectrum. Otherwise, the economy's progress may be jeopardized by divisive politics, protest, and even violent conflict. Again, if the ethical case does not persuade, the pragmatic one should." (p7)

Commission on Growth and Development (2008)

Box 4

"Bad Ideas" for Development Policy and Intervention

"• Subsidizing energy except for very limited subsidies targeted at highly vulnerable sections of the population.

• Dealing with joblessness by relying on the civil service as an "employer of last resort." This is distinct from public-works programs, such as rural employment schemes, which can provide a valuable social safety net.

• Reducing fiscal deficits, because of short term macroeconomic compulsions, by cutting expenditure on infrastructure investment (or other public spending that yields large social returns in the long run).

• Providing open-ended protection of specific sectors, industries, firms, and jobs from competition. Where support is necessary, it should be for a limited period, with a clear strategy for moving to a self-supporting structure.

• Imposing price controls to stem inflation, which is much better handled through other macroeconomic policies.

• Banning exports for long periods of time to keep domestic prices low for consumers at the expense of producers.

• Resisting urbanization and as a consequence underinvesting in urban infrastructure.

• Ignoring environmental issues in the early stages of growth on the grounds that they are an "unaffordable luxury."

• Measuring educational progress solely by the construction of school infrastructure or even by higher enrollments, instead of focusing on the extent of learning and quality of education.

• Underpaying civil servants (including teachers) relative to what the market would provide for comparable skills and combining this with promotion by seniority instead of evolving credible methods of measuring performance of civil servants and rewarding it.

• Poor regulation of the banking system combined with excessive direct control and interference. In general, this prevents the development of an efficient system of financial intermediation that has higher costs in terms of productivity.

• Allowing the exchange rate to appreciate excessively before the economy is ready for the transition towards higher-productivity industry." (pp 68-69)

Commission on Growth and Development (2008)

I believe that the Growth Commission report is a remarkable document, not only because it is the consensus of a group of people who represent, if any group could so represent, the policy making elite on economic development. It is also remarkable because it reflects the debates and discussions of the past two decades and earlier, and an evolution in stance as a result of those debates. It is clearly more market and trade oriented than the consensus of the 1950s, 60s and 70s. In some ways it is fully consistent with the shift away from that consensus that came about in the 1980s. The Growth Commission is clear that market orientation should play a central role, and that sustained growth cannot be attained without an outward orientation. But in many other ways it is a departure from the consensus of the 1980s, from the Washington Consensus if you will.[14] Here are no certainties of a "one size fits all" stance, and of the negotiating mindset. There is openness

[14] What the Washington Consensus became rather than what it started off as with Williamson (1990)—notice the similarities between some aspects of Box 1 and Boxes 3 and 4.

to country specificities. Distributional concerns are center-stage. A broader perspective on development—including education, health, environment—is adopted. All this is music to my ears, since it is what I have been arguing for (Kanbur, 1999, 2001, for example).[15] But Dani Rodrik (2008a) sums it up best:

> "The Spence report represents a watershed for development policy – as much for what it says as for what it leaves out. Gone are confident assertions about the virtues of liberalization, deregulation, privatization, and free markets. Also gone are the cookie cutter policy recommendations unaffected by contextual differences. Instead, the Spence report adopts an approach that recognizes the limits of what we know, emphasizes pragmatism and gradualism, and encourages governments to be experimental…. The Spence report reflects a broader intellectual shift within the development profession, a shift that encompasses not just growth strategies but also health, education, and other social policies. …It is to Spence's credit that the report manages to avoid both market fundamentalism and institutional fundamentalism. Rather than offering facile answers such as "just let markets work" or "just get governance right," it rightly emphasizes that each country must devise its own mix of remedies. Foreign economists and aid agencies can supply some of the ingredients, but only the country itself can provide the recipe…. If there is a new Washington consensus, it is that the rulebook must be written at home, not in Washington."

I would like to end this section with a brief discussion of the implications of the global financial crisis of late 2008 for the new consensus. Starting with the failure of Lehman Brothers in September, 2008, a crisis gripped the world's financial system, and spread to the real economy with alarming speed. In November the G20 group of countries had a meeting of heads of state, which is seen as the start of a potential redesign of the global financial architecture.[16] However, the seeds of this crisis were sown in the 1990s and the early 2000s, in the wave of financial sector derregulations that were enacted in the wake of the triumphalism of "the end of history". I have already noted how the global financial crisis of the late 1990s led to a reconsideration of the capital account liberalization. But internal deregulation proceeded apace during this time as well, leading to an explosion in derivatives trading, lightly supervised and regulated. In the US these changes happened under a Democratic administration, and are often labeled "Rubinomics", after Robert Rubin, which encompasses "balanced budgets, free trade and financial deregulation."[17]

I have discussed how rising inequality has caused a reconsideration of unfettered free trade among some proponents of the Washington Consensus of the 1990s, and how these repositionings have fed into an emerging new consensus reflected in the Growth Commission report. The current global crisis has led to a questioning of the other two tenets—balanced budgets and internal financial deregulation. The massive stimulus packages being recommended by the fiscal conservatives of yesteryear are a testament to the power not so much of ideas but of "facts on the ground" to change minds and hearts. And the fierce financial deregulators of the 1990s have now turned into equally ardent supporters of (re) regulation.[18]

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[15] I should also say that I wrote a background paper for the Commission on the importance of distributional concerns (Kanbur, 2007).
[16] See The White House (2008)
[17] Calmes (2008)
[18] See Leonhardt (2008).

The current crisis can only strengthen the stand taken by the Growth Commission in some areas against the Washington Consensus. A central issue remains, however. If it is now recognized that each country must be allowed the space to regulate its financial sector, to address emerging inequalities, and to have fiscal expansion in the face of output slumps, all of which are consistent with the Growth Commission's views on country specificities, we must also face up to what this means for the free flow of finance capital between countries. Such free flow undermines policy independence, and can lead to a race to the bottom as countries try to keep volatile portfolio capital. Two remedies suggest themselevs—greater international coordination of policies or a greater degree of capital control. Even if the later were only a small part of the package, it will have been quite an eventful journey, back to a point where capital controls are part of the legitimate discourse of international policy!

5. Conclusion

In this paper I have tried to place the Washington consensus in the context of evolution of the economic development discourse. This evolution has been argued to be dialectical in nature. The consensus of the 1980s was a reaction to the well established consensus of the previous three decades. However, challenges to the Washington consensus emerged no sooner than it had been formulated, in the realm of ideas (which drew on elements of the earlier consensus) and from outcomes on the ground. As a result, the strong positions taken up by the economic development policy making elite had to be and were modified. The process has been ongoing, but the new consensus is perhaps best captured by the recent report of the Commission on Growth and Development (2008). The global financial crisis of late 2008 can only strengthen the move towards this new consensus, and beyond. The new consensus keeps key elements of the shift away from the post-second-world-war consensus, but restores other elements, and adds new ingredients of its own. As a result, it is eclectic and not as sharp and as focused as the orthodoxy of the 1980s. To some, this is a recipe for confusion, an "anything goes" scenario with lack of clarity on specific policy advice.[19] But to me it is the basis for a deeper discussion of where exactly along the policy spectrum, along each dimension, a country should aim for in order to achieve the long run objective of economic development.

[19] Indeed the evolving new set of recommended policies and interventions has sometimes been referred to as "Washington Confusion." (Naim, 1999, Rodrik, 2006))

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