Challenge

ISSN: 0577-5132 (Print) 1558-1489 (Online) Journal homepage: http://www.tandfonline.com/loi/mcha20

The Post-Washington Consensus: Brand New Agenda or Old Wine in a New Bottle?

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Conflicts in Development Economics

The Post–Washington Consensus

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Has a constructive post–Washington Consensus actually been formed? The author of this paper cautiously believes it has. It is a consensus that recognizes the role of the state, the benefits of industrial policy, and the dangers of rapid deregulation, but that is also grounded in neoclassical principles, which produced the first Washington Consensus. Will the compromise prevail?

> If there is a consensus today about which strategies are most likely to promote the development of the poorest countries in the world, it is this: there is no consensus except that the Washington Consensus did not provide the answer. (Stiglitz 2004, 2)

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Challenge, vol. 50, no. 2, March/April 2007, pp. 67–85.

ISSN 0577–5132 / 2007 $9.50 + 0.00.
DOI: 10.2753/0577–5132500205

For some time now, enthusiasm has been voiced about the emerging development paradigm dubbed the "post–Washington Consensus." The name is clever because it marks the passage of the Washington Consensus, a term that had become a pejorative associated in the public mind with quasi-imperialism and cynical orthodoxy, and the coming of a new, more just consensus. However, paradigm shifts in large policy areas do not occur overnight. In this article I ask whether there exists such a thing as a post–Washington Consensus. Ironically, the initial statement by Joseph Stiglitz—the man who happened to coin the term—seems to suggest that there does not. On the other hand, there is no doubt that there has been a pendulum swing away from the belief in unfettered markets in the discipline of development economics and in the international financial institutions, accompanied by a new appreciation of the state's role in development. I ask whether these changes represent a substantial break with neoclassical economics, the intellectual foundation of the Washington Consensus.

The Washington Consensus

In the course of the 1980s, when large parts of the developing world were ridden by debt crises, an agreement was consolidated between the International Monetary Fund (IMF), the World Bank, and the U.S Treasury on a set of policy prescriptions that came to be known as the Washington Consensus. The term was coined in 1989 by economist John Williamson, who was hired to the World Bank shortly afterward. Williamson (1993) summarized the consensus in ten points:

1. *Fiscal discipline.* The operational budget deficit should not be higher than 2 percent.
2. *Public expenditure priorities.* Spending should be reduced in "politically sensitive areas which typically receive more resources than their returns can justify" and reallocated to areas such as primary health and education to improve human capital.
3. *Tax reform.* The tax base should be broadened, and the marginal tax should be cut in order to sharpen incentives and increase horizontal equity.

4. *Financial liberalization.* The ultimate goal should be to achieve market-determined interest rates.
5. *Exchange rates.* Countries should have unified and competitive exchange rates.
6. *Trade liberalization.* Quantitative trade restrictions should immediately be replaced by tariffs, which in turn should be reduced to a minimum as soon as possible.
7. *Foreign Direct Investment.* Barriers to foreign direct investment should be abolished.
8. *Privatization.* State enterprises should be privatized.
9. *Deregulation.* Regulations that impede the entry of foreign firms should be abolished.
10. *Property rights.* Property rights should be guaranteed legally, also in the informal sector.

Williamson conceded that there might not be universal consensus on each and every point, but the points were supported where it mattered most: in Washington. It is striking to note that two international organizations adhered to and acted upon such a comprehensive set of coherent policy prescriptions. The norm in international organizations of similar scope is a plethora of competing opinions and interests, which frequently brings them to a grinding halt. Thus, even if the aim of an organization is clearly stated—for instance, trade liberalization in the case of the World Trade Organization (WTO)—the way they are constituted significantly circumscribes the possibilities for making quantum leaps. Not so with the IMF. A country's influence in this organization reflects the financial contribution it makes, and the United States is by far the largest donor, thus giving it an effective veto. This is one important factor in understanding the ease with which the consensus was established.

But the way the international financial institutions are designed is not the whole story. The consensus is also a reflection of the hegemony of neoclassical theory within the discipline of economics. The main assumption of neoclassical economics is that free markets generally produce the most efficient outcomes. There can be no involuntary unemployment because labor demand always equals labor supply. An additional assumption—which Joseph Stiglitz (2004) calls "market fundamentalism"—is that if perfect markets do not exist, the best thing to do is to create them as soon as possible, because the market itself will lead to economic efficiency. It follows that the best strategy to achieve economic growth is to liberalize trade so that comparative advantages can be realized; deregulate capital and financial markets so that capital always can flow freely to wherever the return is highest; and privatize state enterprises to optimize resource allocation—the sooner the better. The theorems of welfare economics bolstered this belief in unfettered markets even further: "there could be no externalities (no problems of air or water pollution), no public goods, no issues of learning, perfect capital markets" (Stiglitz 2004, 3).

Utilitarian welfare economics provides another theoretical cornerstone undergirding the Washington Consensus, namely the idea that the welfare of a country is measured by the size of its pie, not by how it is divided. The division of the pie, moreover, is assumed to be influenced by a trickle-down effect, so that an ostensibly disproportionately distributed growth will benefit the least well-off anyway. Growth of the gross domestic product (GDP) thus became the ultimate measure of a country's success. A last point to note is the skeptical view that neoclassical economics takes of the state. The notion of the "New Political Economy" (NPE), which grew out of the work of World Bank chief economist Ann Krueger, claimed that bureaucrats essentially were rent-seeking. NPE also set out to show that state regulations such as foreign trade controls created windfall gains and led to corruption. Privatization was pushed because the IMF did not believe that governments could insulate themselves from political pressure and bribery. The Washington Consensus thus advocated a minimal state whose task was to provide a solid foundation for the market by securing property rights and certain very basic services such as primary education and infrastructure.

The Washington Consensus in Practice

Before we turn to the Washington Consensus's track record, it is worth noting that the purpose behind the creation of the IMF was to ensure global economic stability by making sure that countries maintained sufficient aggregate demand. In times of crisis, the IMF would provide the liquidity to help countries stimulate their demand. The IMF was therefore in its very nature a Keynesian institution, designed in the recognition that markets do not naturally stabilize themselves. Much has happened to the IMF since its inception, however. If the Washington Consensus as articulated by Williamson showed that its original agenda had been greatly expanded (if not abandoned altogether), the Washington Consensus in practice nevertheless rested on three pillars: fiscal austerity, privatization, and market liberalization (Stiglitz 2002). The IMF is supposed to assess a country's macroeconomic stability, but the rigid emphasis on fiscal austerity means that the effort to control inflation has completely overshadowed two arguably more important macroeconomic goals: to keep unemployment low and to spur growth. Moreover, these goals can be in conflict with one another. Fiscal austerity—by which in the Washington Consensus means a strict focus on keeping inflation low and budgets balanced—can be in conflict with the goal of growth and employment. In fact, the very mechanism for inducing growth and employment in the Keynesian model is to pump up aggregate demand by increasing government spending. Lowering the interest rate can also be a means to the same end. The Washington Consensus's single-minded focus on fiscal austerity excluded these options.

The Asian Financial Crisis

The Asian financial crisis provided maybe the clearest example of the effects of the policies of the Washington Consensus. The crisis started after the crash of the Thai real estate market and the subsequent devaluation of the baht in the summer of 1997, then spread into a wave of currency crises in Southeast Asia. Although it looked much like a well-known (albeit devastating) financial crisis, it was interpreted as the beginning of the end of Asian state-led capitalism:

> The current crisis is likely to accelerate the dismantling in many Asian countries of the remnants of a system with large elements of govern-

> ment-directed investment, in which finance played a key role in carrying out the state's objectives. Such a system inevitably has led to the investment excesses and errors to which all similar endeavors seem prone. . . . Government-directed production, financed with directed bank loans, cannot readily adjust to the continuously changing patterns of market demand for domestically consumed goods and exports. Gluts and shortages are inevitable. (Greenspan, cited in Wade 1998, 1536).

This statement by then chairman of the Federal Reserve Alan Greenspan illustrates well a neoclassical interpretation of the crisis. In the absence of a free market, there will inevitably be misallocations and a mismatch between supply and demand. There is an inherent inflexibility to government that corresponds poorly with the dynamism of the market. This will lead to inefficient outcomes, if not full-fledged crises. The crisis, then, was not a result of irrational panic setting in motion a self-reinforcing downward spiral, but a symptom of a deeper malaise, namely the lack of sufficient capital account liberalization and other corresponding Anglo-American policy reforms. This was claimed despite the fact that the Asian countries had undertaken radical capital market liberalization in the first half of the 1990s. However, this interpretation is contradicted by the facts. Almost every indicator in the Southeast Asian economies was pointing upward right up until the crisis. In general, growth was fast, savings rates were *very* high (meaning that the need for additional capital was virtually nonexistent, thus making the argument for further capital market liberalization dubious), fiscal accounts were balanced (with a partial exception for Thailand), inflation was low, and unemployment was low all over Southeast Asia. The fundamentals looked fine, something that was also noted by the IMF itself right before the onset of the crisis (Wade 1998).

In his stinging account of the causes and consequences of the Asian crisis, Robert Wade (1998) is very explicit in locating the salient actors in the crisis, and he does not hesitate to blame the "Wall Street–U.S. Treasury–U.S. Congress–City of London–UK Treasury–IMF complex" for contributing to the crisis, and certainly for aggravating it. By arguing that the reasons for the crisis were deeply structural and related to the Asian state's active role in the economy, the IMF screamed fire in the theater, and contributed to deepening the crisis from a financial crisis to a full-fledged “debt-and-development crisis.”

The autonomy of the crisis-stricken Asian states was undermined by an IMF that seriously overstepped its legitimate competences and demanded a wholesale restructuring of their economies—a restructuring to render them more Anglo-American. This was done in spite of the fact that their institutions were adapted to a corporate structure that is very different from the Western one. Asian firms typically had a high debt-to-equity ratio and were therefore vulnerable to disruptions in cash flow and supply of capital. However, this did not mean that the firms were not profitable, but that they were dependent on cooperating with banks to secure a steady supply of capital to buffer external systemic shocks. This type of cooperation was indeed typical of the region (Wade 1998). When the IMF insisted on full capital market liberalization, it ignored this idiosyncratic feature. The firms that had been the backbone in the prolonged growth dubbed the “Asian miracle” now found themselves dependent on bidding for capital with Western banks that typically deemed lending to a company with a debt-to-equity ratio of over 1:1 imprudent. By way of comparison, Daewoo had a debt-to-equity ratio of 5:1.

The failure to take into account the particularities of the Asian countries is a logical consequence of market fundamentalism, the belief that free markets are the optimal solution for any country, at any time, in any place. Since the “one size fits all” structural adjustments that the IMF required to bail out the struggling economies in Southeast Asia were so similar, the crisis provides a rather sinister empirical test of the effects of neoclassical economic doctrines. Both Wade (1998) and Stiglitz (2002) identify capital account liberalization as a major *cause* of the financial crisis. But arguments along these lines did not stop the IMF from continuing to advocate it even after the crisis hit. This policy, combined with the advice to drastically raise the interest rate, actually resulted in a net outflow of capital in several countries.

The social consequences were nothing short of devastating. The high interest rates that were supposed to attract foreign capital drove small businesses into bankruptcy and contributed to a draconian rise in unemployment; it rose fourfold in Korea, threefold in Thailand, and tenfold in Indonesia in 1998. Several countries saw a doubling or even tripling of poverty. In 1998, GDP contracted by 6.7 percent in Korea, 10.8 percent in Thailand, and 13.1 percent in Indonesia (Stiglitz 2002). But there were a couple of notable exceptions. Malaysia had resisted the pressure to fully liberalize capital and financial markets and consequently had regulatory structures in place that cushioned the impact of foreign exchange volatility. As the crisis proceeded, Malaysia chose a different path than the countries that felt compelled to adopt the IMF reform package. In September 1998, Malaysia imposed comprehensive capital controls. Moreover, it pegged its currency to the U.S dollar, cut interest rates, and pursued an expansionary macroeconomic policy. In many ways, it did precisely the opposite of what the IMF encouraged it to do. Ethan Kaplan and Dani Rodrik find that these policies "produced faster economic recovery, smaller declines in employment and real wages, and more rapid turnaround in the stock market" (2001, p. 1). China avoided the crisis by many of the same measures.

Latin American Reforms

The other major component of the Washington Consensus's track record is the wave of reforms that followed the Latin American debt crisis—the event that catalyzed the formulation of the Washington Consensus. The focus on fiscal austerity made more sense in this instance. Inflation, no doubt, had to be checked, since several countries were ridden by hyperinflation upsetting the whole economy. But the cure recommended by the IMF elevated the control of inflation to a goal in itself rather than as a means to improve the overall health of the economy. High interest rates were also recommended (effectively demanded, at least in the case of the developing countries that did not have the leverage to protest) to slow down the economy, but often to levels "that would make job creation impossible in the best of circumstances" (Stiglitz 2002, 17).

In Argentina, one of the countries that had to swallow the medicine prescribed by the IMF, the result was a sharp reduction in inflation, but an almost equally dramatic rise in unemployment. After the deregulation of the labor market and privatization of state-run companies, the unemployment rate rose from about 5.8 percent in 1991 to a peak in 18.8 percent in 1995, and was about 10.6 percent as of December 2005 (LABORSTA 2006). There was also a sharp increase in the poverty level, from an already high precrisis level of 35.9 percent in May 2001 to a peak of 57.5 percent in October 2002 (INDEC 2006).

Political Reactions to the Consensus

In the late 1990s the so-called anti-globalization movement emerged. This movement was made up of factions with many different agendas, but it managed to achieve some cohesion under the banner of opposition to the financial institutions. The massive demonstration against the WTO in Seattle in 1999 was a landmark event that gave the movement a lot of publicity, and several big mobilizations followed shortly thereafter, among them the demonstration against the IMF in Washington in April 2000, and the protests in Prague during the IMF and World Bank summit in September of that same year. Since then, nearly every major summit of the IMF, the World Bank, the WTO, and business networks such as the World Economic Forum has been subject to mobilizations by the anti-globalization movement. Since the movement is so heterogeneous, it has had difficulties maintaining its initial thrust and has split up into different factions. However, measured in terms of publicity and the attention it drew to its cause, it must be deemed very successful. It was responsible for the transformation of the term "Washington Consensus" from a technical expression referring to a set of policies to a pejorative in the public consciousness.

Even more important were the protests that took place in the countries subjected to the consensus. During the Argentine crisis of 2001–2, millions of people took to the streets for days demanding radical changes in the federal government. The middle class mobilized against the financial institutions after the freezing of bank accounts, and there were several attempts, some of them successful and durable, to create alternative neighborhood-based economic systems. Workers occupied bankrupt factories, and the recuperated factory movement has grown steadily since.

And the demands for government change have indeed been heard. Starting with the election of Hugo Chávez in Venezuela eight years ago, there has been a sharp left turn in Latin America. Luiz Inácio (Lula) da Silva won election as president of Brazil, Néstor Kirchner was elected president in Argentina, Tabaré Vasquez in Uruguay, and Juan Evo Morales Ayma in Bolivia. Chile has been governed by a center-left coalition since 1989. South America will be a continent half-run by the left, with Mexico, Peru, Colombia, and the countries of Central America as those run by centrists or those on the right.

In a recent article, Jorge C. Castaneda, former foreign minister of Mexico, notes that the failure of the economic, social, and political reforms implemented in Latin America since the mid-1980s, combined with the brute fact of Latin America's extreme "inequality, poverty, concentration of wealth, income, power, and opportunity meant that it had to be governed from the left of center" (2006). This is definitely a left of many different shades (Castaneda speaks of two lefts, one "populist" and one "open-minded"), but it has to be understood as a reaction to the "lost decade" for which the Washington Consensus must take much of the blame.

Post–Washington Consensus?

In the second half of the 1990s the Washington Consensus came under increasingly fierce criticism. The poor performances of Latin American countries that had undertaken structural adjustments were one reason, even though defenders of the consensus claimed it had been successful (Argentina was frequently held up as the poster child), and that the hardships experienced were a necessary pain to achieve long-term gains.

More important, however, three decades of uninterrupted growth in the "Asian tigers" suggested that a free market was not the only road to success. In development circles, people such as Alice Amsden had argued for some time that the success of these countries was due to a conscious managing of markets on the part of the state.

The state's share in developmental success also started to become recognized in international institutions. UNCTAD's *Trade and Development Reports* from 1994 and 1996 paid attention to the successes of Latin American neostructuralism and East Asian developmentalism. The World Bank's *World Development Report* of 1997, "The State in a Changing World," was an even more important example. The institution that had pushed the Washington Consensus in tandem with the IMF published a report that recognized the importance of the state in development. Even though it clearly was not a case for dirigisme, it represented a break with the systematic skepticism toward state agencies as prone to self-enrichment and bureaucrats as rent-seeking of the NPE. It was noted that "markets and governments are complementary: the state is essential for putting in place the appropriate institutional foundation for markets" (World Bank 1997, 4). The report also emphasized the importance of strong institutions, a careful industrial policy, and effective regulation, and it presented evidence that economies with strong institutional capability grow faster. The state was no longer seen as an obstacle to growth; to the contrary, a limited but effective state was seen as a necessary precondition for it. Stiglitz sees the increased attention to institutions, more specifically "the incentives confronting the institutions and those within the institutions, and the relationship between governance, organization design, and organization behavior" (2004, 10) as one of the elements of the emerging post–Washington Consensus.

Not only has attention been paid to domestic institutions, it has also been argued that a reform of the international financial institutions is way overdue. It is clear that their current design favors some countries over others, and particular interests over others. The United States has an effective veto in the IMF because it is its largest financial contributor. The Western developed countries clearly outweigh the voting power of the developing countries by virtue of their economic strength, although the increasing influence of Japan is shifting the balance somewhat. This effectively means that the countries that are asked to implement reforms have little or no influence over what these reforms should look like. Similarly, the interests of the people who have their lives changed by the reforms are not represented, while the interests of the bankers that provide the funds are overrepresented.

A reform of the financial institutions, it is argued, must fundamentally alter their architecture so that the interests of the developing world can be incorporated in an important and meaningful way. However, there is no consensus on such reform. The developed countries will surely guard their power jealously, and so will the representatives of the private interests that are dominant today. Substantial reform of the IMF, the World Bank, and the WTO can therefore not be said to be part of a post–Washington Consensus.

Another element often mentioned as part of the new consensus is "sequencing." This refers to the speed and chronology with which economic and structural reforms such as liberalization and privatization are undertaken. One of the lessons from the East Asian crisis was that rapid deregulation of capital and financial markets can have a very high cost. The crash of the Thai real estate market that triggered the crisis would not have taken place if there had been regulations that prevented excessive lending to real estate. A different example of possible adverse consequences comes from the "big bang" financial liberalization in post-communist Russia. One consequence was that oligarchs who had acquired their wealth through less than legal means were able to move their fortunes abroad with no questions asked.

There seems to be a consensus on the idea that rapid liberalization is a bad development strategy, especially for countries with high unemployment. Market fundamentalism has been discredited, and it is increasingly recognized that the development strategy must be tailored for each individual country. Moreover, the idea that "countries should be given scope to experiment, to use their own judgment, to explore what might work best for them" (Stiglitz 2004, 11) is gaining support.

If one element of a post–Washington Consensus has been a new understanding about the means to achieve development, there has also been a shift in the conception of what should be the goals of development. The narrow focus on GDP growth has given way to a set of broader goals where human development has been particularly high on the agenda. This approach, which the United Nations Development Programme has been especially important in formulating, seeks to incorporate egalitarianism, democracy, and participation into the development agenda. Amartya Sen argues in his *Development as Freedom* (which can be viewed as a theoretical formulation of this approach) that an increase in both procedural and substantial human capabilities equals an increase in freedom. Since poverty is structurally linked to many of the burdens that deprive people of their capabilities—like hunger, unemployment and lack of voice—its eradication is high on the development agenda. The UN's Millennium Development Goals display the broadened set of goals, ranging from eradication of extreme poverty and hunger to gender equality, education, and fair trade. The multiplication of goals surely represents a departure from the Washington Consensus. However, the strategies for reaching them need not be very different from earlier approaches to achieve GDP growth. As Charles Gore (2000) points out, Sen's capability concept emphasizes freedom of choice and is definitely not incompatible with a liberal perspective, and it also calls for short-term performance assessment not unlike the techniques employed at the service of the Washington Consensus.

Southern Consensus?

While there has been a new appreciation of a role for the state in development along with recognition of the importance of sound institutions, effective regulation, good industrial policies, and careful and strategic implementation of liberalization and privatization in the IMF and the World Bank, many developing countries have their own conceptions of how good development policy should be crafted. Gore traces the emergence of a "Southern Consensus" that "is not yet an institutional reality," but exists in the "convergence between the policy conclusion of Latin American neostructuralism . . . and the deeper understanding of East Asian development models" (2000, 795). Underlying this consensus is a different analysis of how late industrializing countries develop. Catching up is not best achieved by unconditionally opening markets, but by actively building up national enterprises and productive capacities in a range of activities already in place in developed countries. The economy should be propelled toward more skill-, technology-, and capital-intensive production. To reduce costs, one should take advantage of imitation and the use of available technology. Promoting learning and improving the quality of public goods and services are also key strategies.

Gore identifies four elements of the Southern Consensus. The first point is that successful development relies upon strategic integration into the international economy. This point is by and large in line with the "spirit" of the post–Washington Consensus, although the means to achieve this end are likely to be characterized as excessive in the financial institutions. Timing, speed, and sequencing in the opening to international flows should be adjusted to how they serve the national interest of growth and structural change. Import liberalization should be piecemeal, and tariffs should be complemented by export subsidies. Capital account liberalization should be gradual, and managed to reduce the possible dangers of "hot money" and to secure that capital flows are a complement to, rather than a substitution for, domestic resources.

Second, a "productive development policy" is needed to produce growth and structural change. The idea here is that the state should take on an active role in helping private enterprises identify and achieve comparative advantage, and promote investment and learning. Productive development policy further includes "technology policy, financial policy, human resource development, physical infrastructure development, and industrial organization and competition policy" (Gore 2000, 797). As we have seen, the World Bank also recognized the desirability of a good industrial policy but warns that "many developing countries pursued ill-thought-out activist industrial policies with poor results" (World Bank 1997, 6). Many developing countries however, especially in East Asia, must be said to have pursued activist industrial policies with impressive results, and this inspires the Southern consensus.

Third, a comprehensive cooperation between government and business is viewed as a precondition for the successful implementation of these policies. The formulation of policy should be a result of a consultation between a pragmatic economic bureaucracy and private enterprises.

Fourth, the growth process needs to produce equitable results in order to be legitimate. Land reform and rural development policies are important tools to achieve the twin goals of prosperity and reduced inequality. The reliance on trickle-down economics, which according to the Washington Consensus would produce equity, is rejected.

The Southern Consensus, presuming that it is possible to speak of one, shares important common ground with the post–Washington Consensus. Indeed, the successes of developing countries that had pursued policies in this trajectory were an important reason for the erosion of the Washington Consensus and an inspiration in the formulation of its successor. However, given the enormous variation in different developing countries' natural endowments, history, social structure, and so on, it is more correct to think of the Southern Consensus as a classification of salient trends in the developing countries' strategies rather than as a consensus in any rigorous sense of the word.

A Break with Neoclassical Economics?

The Washington Consensus is probably going to be remembered for its simplicity. It posed market against state, and proposed a set of coherent and precise policy prescriptions designed to reap the gains of the free market. As I started by noting, a consensus in international institutions is a rarity, and the Washington Consensus was one. The post–Washington Consensus does not carry a set of precise policy prescriptions; in fact, it seems to be more of an agreement on the failures of its predecessor. Nevertheless, it is a meaningful term because it embodies some ideas on which there is widespread agreement.

The first is the redemption of the state as a key actor in development. The state is seen as complementary to the market rather than as an obstacle to it, and important roles are ascribed to it in regulating, stimulating, and (moderately) managing the market. In the event of a crisis, the state should use its macroeconomic policy to stimulate growth, possibly by running deficits.

The second is an appreciation of the role of institutions in a thriving economy. Modern markets depend on predictable institutions staffed by competent individuals. Some generic clues to institutional reform are also being formulated, whereas the Washington Consensus merely insisted on sound institutions. The view of bureaucrats as inherently rent-seeking has been moderated.

The third idea is that privatization, liberalization, and deregulation can produce counterproductive results unless they are undertaken with care. It is acknowledged that certain conditions must be met before these reforms can produce desirable results. Before opening up to global flows, there must be a reasonable degree of competition, and local firms must be sufficiently developed to have a fair chance of being able to compete on the global market. Limited use of capital controls, tariffs, and export subsidies is tolerated—so long as the ultimate goal is market integration. The fourth idea is a broadening of the development agenda from a narrow focus on GDP growth to include human development, sustainable development, and democratic development.

Many of the elements of the post–Washington Consensus fly in the face of orthodox neoclassical economics. For instance, an active industrial policy where the state directs investments and tries to stimulate certain types of production is unnecessary if not downright harmful in the neoclassical framework. The same goes for trade restrictions and capital market regulation; they can only slow down the realization of comparative advantage and effective resource allocation.

At first glance, the post–Washington Consensus seems to be closer to Keynesianism than to neoclassical economics. This is reinforced by the fact that it builds on the idea that markets are inhibited by imperfections. Stiglitz mentions many different types: transaction costs, asymmetries of various kinds, and especially imperfect information. The state must intervene to correct these imperfections so that markets work well. Keynesian economics starts from precisely this premise, that suboptimal equilibria occur in markets because they do not naturally produce full employment or perfect competition.

The post–Washington Consensus also shares with Keynesianism the opposition to monetarism, contractionary policies, and a narrow focus on inflation. Government spending might be a good development policy if it serves to reduce unemployment, even if that means a higher inflation rate than the neoclassicals deem prudent. It also advocates a return of the IMF to its original Keynesian role, to provide liquidity in the event of a crisis so aggregate demand can be sustained, not to demand structural reforms of its debtors.

However, some critics have voiced skepticism regarding the novelty of the post–Washington Consensus. While submitting that it poses an imminent threat to the Washington Consensus by potentially bringing about a fundamental breach between the World Bank and the IMF, Ben Fine argues that "the extent to which the foundations for the new consensus continue to conform to the methodology of old and even reinforce the rejection of alternatives" is much more striking (Fine 2001, 6). He sees methodological individualism as equally prominent in the latter consensus, and generally a "natural progression from the Washington Consensus to the post–Washington Consensus from an analytical point of view" (ibid.). The novelty consists in a recognition of more market imperfections, but apart from its stark criticism of market fundamentalism, the post–Washington Consensus is equally wedded to the idea of the market. In Fine's mind, post–World War II Keynesianism reserved a much more important role for the state in promoting modernization and social and economic welfare than does the post–Washington Consensus, which, in his opinion, only encourages intervention to correct market imperfections. In so doing, it leaves no room for notions of class, power, and conflict.

Fine is right to argue that there is substantial continuity between the Washington Consensus and its "rebel" heir. The belief that the market—if properly embedded—will produce efficient and equitable outcomes is the most important one. There are also methodological continuities—class has by no means replaced the individual as the prime analytical category despite the increased attention to poverty and equality. Given the structure of the financial institutions and the interests represented in them, it is hard to believe that a radical break with a market-based approach will occur. Still, Fine is doing rough justice to the post–Washington Consensus when he essentially characterizes it as old wine in a new bottle. The most important distinction lost is that between the goals of full employment and of low inflation. He recognizes that achieving this will often take an active industrial policy, good social policies, and high government spending. Moreover, the concession that a long-term industrial policy is an important part of the development strategy inclines more toward the Keynesian idea that economic performance can be improved by intelligent state intervention than the neoclassical belief in free markets. It would also be wrong to say that the post–Washington Consensus holds that every market imperfection can be corrected. Stiglitz realizes that the market will systematically undersupply certain public goods such as education, and consistently oversupply public ills such as pollution. This calls for consistent state intervention.

The most positive thing to come out of the post–Washington Consensus is not a revised set of policies that provides a new blueprint for developing countries, but hopefully a more realistic—more humble—idea about what the financial institutions can contribute to their development. The first and most important thing is the freedom for countries to use their own judgment to decide what works for them.

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