THE EVOLUTION OF THE TERM ‘WASHINGTON CONSENSUS’

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Abstract. The term ‘Washington Consensus’, as Williamson conceived it, was the lowest common denominator of the reforms that he judged ‘Washington’ could agree were required in Latin America. The term has evolved to denote a different set of policies from those initially conceived. This paper investigates the different versions and interpretations of this controversial term and assesses whether the term itself is suitable and viable or slowly becoming irrelevant and obsolete. Most importantly, the evolution of the term mirrors the evolution of economic thought on economic development for nearly the last two decades.

Keywords. Economic development; IMF; Washington Consensus; World Bank

1. Introduction

Undoubtedly, John Williamson is famous for pioneering the phrase ‘Washington Consensus’ in the economic literature in 1989. The term, as Williamson conceived it, was in principle geographically and historically specific, a lowest common denominator of the reforms that he judged ‘Washington’ could agree were required in Latin America at the time. ‘Washington’, for Williamson, incorporated the International Monetary Fund (IMF), the World Bank, and the US executive branch, the Federal Reserve Board, the Inter-American Development Bank, those members of Congress interested in Latin America, and the think tanks concerned with economic policy. Basically, it was according to Williamson an amalgamation of political, administrative and technocratic Washington.

Williamson identified 10 policy instruments whose proper deployment Washington could muster a reasonable degree of consensus. Williamson summarizes the content of the Washington Consensus as macroeconomic prudence, outward orientation, domestic liberalization, and free market policies consistent with classical mainstream economic theory.1 The Washington Consensus was the lowest common denominator of orthodoxy. He stated: ‘my view is in the fact that the “Washington Consensus” is the outcome of worldwide intellectual trends to which Latin America contributed and which have had their most dramatic manifestation in Eastern Europe. It got its name simply because I tried to ask myself what was the conventional wisdom on the day among the economically influential

It is asserted that the Washington Consensus has been accepted as common wisdom in terms of developmental policy and growth. At the same time, when ‘Latin America was engaged in its hesitant, controversial, patchy, incomplete, but nonetheless rather widespread attempt to move from the statism to a market economy’ (Williamson, 1990a, p. 3), another debate was taking place with regard to fostering growth in Russia, the former republics of the Soviet Union, and Central and Eastern Europe. It is claimed that the Washington Consensus was applied to structural crisis in the transition economies of the Commonwealth of Independent States, Central and Eastern Europe – in the form of shock therapy\(^2\) – the newly industrialized economies and the ailing advanced economies (Kolodko, 1999, pp. 4–5; Stiglitz, 2002, p. 141).

Nevertheless, there has been a lot of misunderstanding with regard to what exactly Washington Consensus actually means. Williamson (2000, pp. 251–252) concurs: ‘... it [the Washington Consensus] is now used in several different senses, causing a great deal of confusion’ and ‘I find that the term has been invested with a meaning that is significantly different from that which I had intended...’. This is because the term has evolved, via the natural processes of debate, discussion, criticism and misinterpretation, to denote a different set of policies from those originally ascribed. As Persaud (1997, p. 72) stated, ‘the policy stance represented by the Washington Consensus is a general framework that is recent, that is continuing to evolve, and that will continue to need refinements and adaptation to the circumstances of individual countries’.

In spite of Williamson’s original conception, the term has evolved to denote a different set of policies than were initially proclaimed. This is due in part to the fact that the father of the term in subsequent writings changed the set of policies by elaborating and expanding them and attempting to incorporate the criticisms associated with the definition and interpretation of the term. Moreover, Williamson attempted to include, sometimes explicitly, his personal values and beliefs. In the nearly two decade history of the paradigm, Williamson instigated major changes to the original version, thus adapting it to other countries, economic situations and criticisms raised within the academic community. Most importantly, Williamson reacted to criticisms related to the negative results of the Washington Consensus as a policy prescription and to the Bretton Woods institutions’ failures in managing the 1990s East Asian financial crises and returning the affected countries to normal conditions.

In addition, the Washington Consensus has been identified as a neoliberal manifesto as those who opposed the policies of the consensus alleged that social equity, safety nets and institutional development were overlooked in the original consensus. More recently, Kuczynski and Williamson (2003) have devised a new set of policies labeled After the Washington Consensus as a means to call attention to a new set of reforms required to resume growth in Latin America, but this time in a more equitable way. Consequently, the term is controversial that unquestionably would justify using a lengthy exegesis as the basis for evaluating the degree of
consistency of Williamson’s positions and the legitimacy of the use of the term as a neoliberal manifesto.

This paper’s aim is to discover the different versions and interpretations of this controversial term, and to assess whether the term itself is suitable and viable or is slowly becoming irrelevant and obsolete. Williamson (1999, p. 16) himself queried whether the term is ‘...being superseded by a new Consensus, dead or what [sic]’. Consequently, an important inquiry surfaces: was Williamson really stating an actual consensus or rather a set of policies that he himself would have liked to have been applied nonetheless presented as a consensus? The paper contributes to the debate on economic development by demystifying the term Washington Consensus by distinguishing between different versions of the term, which reflect its path dependent historical development. Most importantly, students of economic development would benefit from this analysis as the evolution of the term mirrors the evolution of economic thought, over nearly two decades, with regard to economic policies required for development. Hence, the inquiry into the alternative versions of the Washington Consensus reveals the similarities and dissimilarities between alternative views concerning policies for economic development. Due to space limitations, this paper will almost exclusively focus on John Williamson’s different uses of the term and his replies to the criticisms that have been raised regarding the term.5

I will employ a classification strategy, in which Williamson’s original list of the best practices for development strategies is the starting point. Successive waves of revisions by Williamson are scrutinized according to how they modified this list. The evolution of the set of policies is summarized in Table 1 and as a grid in which the rows represent various planks of the original consensus or supplements and the columns represent the various versions, starting with the original Washington Consensus. The aim of this format is to give structure to the discussion by showing precisely which tenets are challenged by which versions. The discussion also incorporates justifying the placement of particular policy prescriptions in the right cell of the grid. The following analysis presents in chronological order the various versions of the Washington Consensus based mainly on the writings of John Williamson and highlights the major events or intellectual changes which explain the term’s evolution.

2. The Washington Consensus

2.1 The Original Washington Consensus: Washington Consensus Version 1.0

Williamson (1999, p. 1) became engaged in economic policy reform and development debate ‘almost by accident’, once he originated ‘the now notorious phrase “the Washington Consensus”’. In November 1989, the Institute for International Economics convened a conference to investigate the economic reforms in Latin America. Structural adjustments in Latin America had the goal of
Table 1. Alternative Versions of the Washington Consensus.

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<tr>
<td>Major events or intellectual changes</td>
<td>Economic reforms in Latin America</td>
<td>A more socially responsive economic policy</td>
<td>Williamson’s Wish List</td>
<td>Economic policies implemented by Reagan and Thatcher</td>
<td>Policy agenda for reviving economic growth in Latin America</td>
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<tr>
<td>1. Fiscal discipline</td>
<td>Small budget deficit financed without resource to inflation tax</td>
<td>As 1.0</td>
<td>As 1.0 and increase private-sector savings</td>
<td>Balanced budget As 1.0</td>
<td>Crisis building As 1.0</td>
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<td>2. Public expenditure priorities</td>
<td>Redirect expenditure from administration, defense, indiscriminate subsidies, and white elephants to areas with the potential to improve income distribution, such as primary health care, education, and infrastructure</td>
<td>As 1.0</td>
<td>In addition, social expenditure with a high pay-off in terms of assisting the most disadvantaged and improving income distribution Universal access to birth control</td>
<td>Reduce government expenditure</td>
<td>As 1.0 Pro-growth and pro-poor expenditure</td>
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<td></td>
<td>No more than 2% of GDP</td>
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<td>Crisis building As 1.0 Social sector</td>
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<td>3. Tax reform</td>
<td>Broadening tax base and reducing marginal tax rates without lowering realized progressivity</td>
<td>As 1.0</td>
<td>As 1.0 and introducing an eco-sensitive land tax to preserve the environment</td>
<td>Overall tax cuts and eliminate taxes that redistribute income</td>
<td>As 1.0</td>
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<td>4. Financial liberalization</td>
<td>Abolition of preferential interest rates and achievement of moderately positive interest rates</td>
<td>As 1.0</td>
<td>As 1.0 and strengthening prudential supervision to avoid financial crisis</td>
<td>Market-determined interest rates</td>
<td>Financial supervision Against interest rate liberalization Transparency Abolition of preferential interest rates</td>
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<td>5. Exchange rates</td>
<td>Unified and managed competitive real exchange to maintain competitiveness</td>
<td>No consensus. Fixed or floating managed exchange rate</td>
<td>As 1.0</td>
<td>Freely floating convertible currency</td>
<td>As 1.0</td>
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<td>6. Trade liberalization</td>
<td>Import liberalization. Replace quantitative trade restrictions with tariffs of around 10%-20%. Gradual reduction of original tariffs</td>
<td>As 1.0</td>
<td>Regional free trade zones and bilateral agreements</td>
<td>Free trade and the elimination of capital controls</td>
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<td>Aspects</td>
<td>Description</td>
<td>Reform accomplished</td>
<td>As 1.0</td>
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<td>Foreign direct investment</td>
<td>Abolish barriers to entry for foreign firms and establish a level-playing field for both foreign and domestic firms</td>
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<td>Privatization</td>
<td>State enterprises should be privatized, but when marginal costs are less than average costs, or in the presence of environmental externalities, public ownership might be preferred through vouchers</td>
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<td>Deregulation</td>
<td>Government should abolish regulations that impede entry or restrict competition and any remaining regulations are justified in terms of safety, environmental protection, or prudential supervision</td>
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<td>Property rights</td>
<td>Secure property rights without excessive costs which are also available to the informal sector</td>
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<td>11. Institution building</td>
<td>Independent central bank, strong budget office, decentralization, independent and incorruptible judiciaries and agencies to sponsor productivity missions</td>
<td>Independent central bank and money supply should grow at fixed rate consistent with monetarism</td>
<td>Institutional changes to promote technology transfer and improved environmental conditions</td>
<td>For transition economies building the institutional structure of a market economy</td>
<td>Crisis proofing Second generation of reforms</td>
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<td>12. Improved education</td>
<td>Increase educational spending and redirect spending toward primary and secondary education</td>
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<td>13. Price liberalization</td>
<td>No consensus. Fixed prices, wages and exchange rate versus free prices</td>
<td>Immediate price liberalization</td>
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substituting a market-based economic system for a traditional statist economic system (Williamson, 1990c, p. 402). At this conference, Williamson (1990b, pp. 7–20) found the opportunity for the first time to disclose his new-found term in a background paper which spelled-out the substance of the policy changes for the conference, entitled ‘What Washington means by policy reform’. His paper was sent to 10 authors who had agreed to write country studies for the conference. The papers presented were subsequently edited by Williamson (1990d) and published the following year as a book entitled Latin America Adjustment: How Much Has Happened? As a result of this publication the term ‘Washington Consensus’ became public knowledge.

Williamson (1990b, 1993, 1994) identified and debated 10 policy instruments – regarded as ‘The Ten Commandments’ (Williamson, 2004a, p. 3; 2004–2005, p. 205) – whose proper deployment could muster a reasonable degree of consensus in Washington. These 10 reforms ‘were practically universally agreed in Washington to be desirable in most Latin American countries’ (Williamson, 2004–2005, p. 195). The consensus or ‘first-generation’ policy reforms, as Williamson (2003a, p. 320) later named them, signified a reconsideration of what used to be traditional economic development advice: import substitution, nationalization, planning, and use of the inflation tax to raise savings. As of 1989, systematic thinking on economic development had produced a set of multiple and complementary reforms that specified the need to establish property rights and effective market incentives, as well as maintain macroeconomic stability. These reforms had long been regarded as orthodox in the OECD countries, ‘but there used to be a sort of global apartheid which claimed that developing countries came from a different universe…. The Washington Consensus said that this era of apartheid was over’ (Williamson, 2002b, p. 2) and this ‘is something to be celebrated rather than mourned’ (Williamson, 2004a, p. 12).

The policy framework of the Washington Consensus was the part of the Reagan–Thatcher agenda that had endured and received general agreement, ‘even though a good part of the original agenda was pretty nutty’ (Williamson, 2002a, p. 5). Kuczynski (2003, p. 25) reaffirmed that the conference omitted ideologies like supply-side economics, monetarism and socialism and instead developed an agenda based on mainstream economic thought which recognized the importance of both the market and the state. The goal of the conference and subsequent writings by Williamson was to use the term as a means to impress on Washington that Latin America deserved debt relief under the Brady plan. The region had rejected the economic development mentality of the 1960s and the time was right to demonstrate that Latin America had implemented reforms that Washington would agree were required and hence should be financially supported with aid.

In the following sections, I outline the Washington Consensus 10 policy reforms à la Williamson (1990b, 1993, 1994) that ‘…most people in Washington believed Latin America (not all countries) ought to be undertaking as of 1989 (not all times)’ (Williamson, 2002b, p. 1).
2.1.1 Fiscal Discipline

The IMF stipulates that borrowing is conditional with respect to the achievement of fiscal discipline. ‘Keynesian’ stimulation via large budget deficits is unacceptable. However, fiscal discipline does not necessarily imply a balanced budget. Deficits are acceptable as long as they do not result in a rising debt–GNP ratio. Any deficit should be the result of expenditure on productive infrastructure investment. Budget deficits, properly measured including provincial governments, state enterprises, and the central bank, should be small enough to be financed without recourse to an inflation tax. This implies a primary surplus (before adding debt service to expenditure) of several percent of GDP, and an operational deficit (the deficit disregarding that part of the interest bill that compensates for inflation) of no more than about 2% of GDP.

2.1.2 Public Expenditure Priorities

Expenditure on politically sensitive areas (i.e. administration, defense, and white elephants) should be substantially reduced since they receive more resources than their economic returns merit. Subsidies, especially indiscriminate subsidies (including the financing of inefficient state enterprises) should also be reduced or even better eliminated. The funding of education and health are appropriate objectives of government expenditure, but they are usually underfinanced, even though they have high economic returns. Investment in human capital helps the disadvantaged and improves income distribution. Thus, there should not be a complete abolition of all subsidies as long as the remaining subsidies improve either resource allocation or income distribution.

2.1.3 Tax Reform

Broadening the tax base (including taxing capital flight), reducing marginal tax rates to a moderate level, and improving tax administration are recommended. The goal of tax reform should be to increase incentives and improve horizontal equity by maintaining moderate progressivity.

2.1.4 Financial Liberalization

In the long run the goal should be market-determined interest rates. However, during the initial stages of reform, such market-determined interest rates may be so high that they threaten the viability of enterprises and increase the burden of government debt. Thus, interest rates should be positive and moderate to discourage capital flight and increase savings. Simultaneously, any preferential interest rates should be abolished.
2.1.5 Exchange Rate Policy

A managed competitive real exchange rate\(^6\) is fundamental to achieving an outward-oriented economic policy and to maintaining competitiveness. The balance of payments constraint should be overcome by export growth in nontraditional exports rather than by import substitution.

2.1.6 Trade Liberalization

Import liberalization and abolition of quantitative trade restrictions are also required for an outward-oriented economic policy and to reduce corruption. Infant industry concerns justify strictly temporary protection. A moderate general tariff (in the range of 10\%–20\%) would also provide a bias toward diversifying the industrial base, without having a substantial cost. Concerns about timing justify a gradual removal of protection. There is a disagreement, however, on whether import liberalization should proceed according to a predetermined timetable of three to 10 years (the World Bank view), or whether the speed of liberalization should be endogenously determined depending on the macroeconomic conditions (the Williamson view). Nevertheless, the consensus was that there should be a gradual reduction of protective walls.

2.1.7 Foreign Direct Investment

Barriers restricting the entry of foreign firms should be abolished and there should be free competition between domestic and foreign firms. Foreign direct investment should bring desired capital, skills, know-how, and produce goods required for the domestic market or contribute to new exports. There was no place in the Washington Consensus for economic nationalism.\(^7\)

2.1.8 Privatization

The main rationale for privatization was the belief that private firms are managed more efficiently than state enterprises due to the different incentives faced by managers and owners. The lack of a strong indigenous private sector was an insufficient reason to preclude privatization; this could only be justified by economic nationalism which, as already stated, was unacceptable. Williamson (1990b, p. 16) favored privatization only if it resulted in increased competition. Meanwhile, when marginal costs are less than average costs, or in the presence of environmental externalities, public ownership might be preferred.

2.1.9 Deregulation

Governments should abolish regulations that restrict the entry of new firms and/or restrict competition. Any remaining regulations could only be warranted for reasons of safety, environmental protection, or prudential supervision of financial institutions.\(^8\)
2.1.10 Property Rights

The legal system should provide secure, uniform and low cost property rights available to everyone, including the informal sector.9

During the discussion following his paper presentation, Williamson (1990b, p. 18) acknowledged that while fiscal discipline is certainly a precondition for controlling inflation, it might need to be supplemented by price and wage freezes and a fixed exchange rate. Conversely, price liberalization should be added as a policy instrument to the Washington Consensus. However, since there was no consensus on this issue, it could not be included. Additionally, on the topics of poverty and the environment, there was no consensus in Washington regarding what should be done about either of these important issues (Feinberg, 1990, p. 24). Nevertheless, even with the aforementioned omissions, the set of policies recommended had general applicability in other developing countries (Williamson, 1993, p. 1332), because ‘in practice there would probably not have been a lot of difference if I had undertaken a similar exercise for Africa or Asia, and that still seemed to be the case when I revisited the topic (with regard to Latin America) in 1996’ (Williamson, 2000c, pp. 254–255).

Williamson (1994, p. 18) insisted that the Washington Consensus should be interpreted ‘as embodying the common core of wisdom embraced by all serious economists’ and ‘a statement of what “serious” economists ought to believe’ (Williamson, 1996, p. 21) as the set of policies recommended to provide the means towards prosperity for every developing country. From the very beginning, the term provoked controversy. Feinberg (1990) argued that it should be called ‘universal convergence’, while Toye (1994, p. 39) understood the consensus mainly as ‘the outcome of an opinion survey’. In the end, Williamson (2003c, p. 325; 2004b, p. 4) conceded that Feinberg was accurate, as the change in economic development thought was really worldwide rather than confined to Washington, and in fact there was no consensus; alas, by then it was too late to change the brand name. Even so, ‘I [Williamson] labeled this [set of policies] the Washington Consensus, sublimely oblivious to the thought that I might be coining either an oxymoron or a battle cry for ideological disputes for the next couple of decades’ (Williamson, 2004–2005, pp. 195–196).

The summary of the recommended policy reforms under the Washington Consensus version 1.0 appears in Table 1. The resurfaced policy omissions were price liberalization, poverty, the environment, and equity. It was ‘an unbalanced list’, concentrated on domestic policies rather than international conditions (Williamson, 2004–2005, p. 195). The issues of equity and income distribution would become a constant criticism of the Washington Consensus. Williamson (1990d, p. 38) stated his desire to include income distribution as an agreed policy – ‘some of us think it was scandalous that it was ever off the table, but the fact is that, at least in Washington, it practically disappeared as an issue in the 1980s’ (Williamson, 1999, p. 16) and ‘...distributional issues were shortchanged in the original agenda...’ (Williamson, 2004–2005, p. 204). However, he did not believe, based on the terms of reference, that there was an approved way of dealing
with equity issues in Washington, so it could not be included. Hence, ‘...so something was not already consensual, it did not make it to the agenda, even if I personally thought it was desirable and important’ (Williamson, 2004–2005, p. 199). Nevertheless, the 10 policy recommendations would not have expected to worsen income distribution (Williamson, 2004–2005, p. 197). In this case, Williamson presents the set of policies as a consensus, even though he believes that the same set of policies is not comprehensive.

Williamson was clearly aware that he was restricting the debate to economic issues, only because his comparative advantage is on the analysis of economic issues. However, ‘it does not imply that I [Williamson] am so stupid and so insensitive as to doubt the importance of these issues, some of which (like national security) are also preconditions for economic prosperity and others which (like gender) demand their own reform agenda’ (Williamson, 1999, p. 2).

2.2 Washington Consensus Version 1.1

Williamson (1996) confessed his reservations regarding some of the policies which were included in the original Washington Consensus. He also expressed his preference to include more socially responsive economic policies, but doubted that they would have been accepted within the constraints that defined the consensus. However, there have been important changes since 1989 regarding what is considered a consensus in Washington. These changes did not result in the abandonment of any policies or perceptions that were originally accepted; rather they were policy additions. In fact, there was some evolution in the consensus in a direction that Williamson favored, which were more socially responsive economic policies.

Williamson (1996, p. 18) recommended, by establishing what I name ‘Washington Consensus version 1.1’, that public expenditure priorities should expand to include the following social expenditures: Public Expenditure Priorities (point 2 in version 1.0) should include (a) assisting the most disadvantaged and improving income distribution (for example, targeted welfare payments, the provision of piped water, and low-cost self-help housing); and (b) universal access to birth control to be provided at the earliest possible date.

Williamson (1996, p. 16; 1997, p. 54) recognized that he had provided a seriously misleading summary regarding the need for a competitive but managed exchange rate (point 5 in version 1.0). ‘In retrospect I worry that my reporting may have been clouded by wishful thinking’ (Williamson, 1996, p. 16). In reality, the IMF was leaning in favor of a fixed exchange rate, while the US Treasury was dominated by proponents of a floating exchange rate. In the end, Washington was adopting a ‘two-corner doctrine’ (i.e. a country must either fix firmly or float cleanly), to the point that ‘it seemed to be commonly believed that supporting anything else was a mark of mental imbecility’ (Williamson, 2004a, p. 7). However, ‘I [Williamson] do not believe that the Washington institutions, or the economics profession, did a service to development by their infatuation with the bipolar solution’ (Williamson, 2004a, p. 7). Consequently, there was no consensus (the correction has been inserted.
in the table). The Washington Consensus version 1.1 is contrasted with the original version in Table 1 by registering the changes in public expenditure priorities and the exchange rate entry, while the remaining entries stay the same.

2.3 Washington Consensus Version 1.2

Williamson (1997, pp. 48–61) resumed the debate in a paper appropriately titled ‘The Washington Consensus revisited’, although in this case Williamson took a different road in constructing the Washington Consensus, which I name version 1.2. He developed a ‘Williamson wish list agenda’ of the reforms that Latin America ought to have been implementing at the time. He was accused of doing so when he initially introduced the term in 1989. So, version 1.2 is distinguished from the previous versions in that it is not the lowest common denominator of what he judged would command a consensus in Washington regarding the economic reforms in Latin America. Here, Williamson outlined what he personally thought Latin America should be doing in 1996 to follow up the by now mature economic reforms, first outlined in 1989. The original set of policies and subsequent versions were actually quite successful as the lowest common denominator of policy reforms about which Washington could muster a consensus, ‘but it strikes me as quite inadequate as a policy manifesto’ in 1996 (Williamson, 1997, p. 49). Thus, this paper aims to elaborate on Williamson’s perceptions of the inadequacies of the consensus as a policy manifesto. ‘I am free here to present my own convictions rather than the lowest common denominator’ (Williamson, 1997, p. 50). Regardless, as revealed in the title of the paper, Williamson still names the set of policies ‘Washington Consensus’. In the following sections, I outline in an order similar to the previous versions the Washington Consensus version 1.2, the major reforms that Williamson argued Latin America required at the time.

2.3.1 High Savings

While the first entry in the original Washington Consensus was fiscal discipline, it has been recognized that fiscal discipline on its own is inadequate at stimulating growth. There was also a need to encourage more savings as a means to stimulate investment, and thus increase economic growth. Most importantly, the increase in savings should come from the private sector rather than the public sector, as high taxes reduce incentives. Effective fiscal discipline has to be supplemented by an increase in private sector savings. Thus the entry is the same as version 1.0 adding increasing private-sector savings.

2.3.2 Public Expenditure Priorities

Expand public expenditure and redirect resources towards effectively targeted social programs which promote improved income distribution. Thus the entry is the same as version 1.1.
2.3.3 Tax Reform

Improve the tax system to internalize environmental externalities. Using the long-standing tax analysis, a variable tax rate on land, with the rates associated with the environmental impact of land utilization, would overcome market failure. Unspoiled wilderness and land that gives refuge to endangered species would have a zero tax rate; land that was developed responsibly would carry a moderate tax rate; and exploitative land use would be taxed at a highest rate. In this way, the environment would be preserved. Thus, the entry is the same as version 1.0 adding an eco-sensitive tax.

2.3.4 Banking Supervision

While the next policy recommendation of the original Washington Consensus was financial deregulation, by 1997 this policy was considered insufficient, as demonstrated by a series of banking crises in Argentina, Mexico and Venezuela. The experience of Latin America verified that financial liberalization required the strengthening of prudential supervision to avoid financial crisis. A weak state, unable to supervise the banking system, jeopardizes the effective functioning of financial markets. Thus, the entry is the same as version 1.0 also adding strengthening prudential supervision.

2.3.5 A Competitive Exchange Rate

Williamson’s wish list has the right to reaffirm his original perception of the Washington Consensus in the case of exchange rate policy. This policy was wrongly included in version 1.0, as stated in version 1.1. Williamson here affirms his support for a managed competitive real exchange rate for maintaining competitiveness. This entry is the same as version 1.0.

2.3.6 Trade Liberalization

World trade strategy had shifted from unilateral tariff reduction to the construction of regional free trade zones and bilateral agreements. The logical culmination of this process is consistent with the continuing liberalization of world trade. This entry is different than the previous versions of the Washington Consensus.

2.3.7 Foreign Direct Investment

The goal was to eliminate any barriers restricting the entry of foreign firms and to establish free competition between domestic and foreign firms. This reform has been accomplished in Latin America, so it was not an issue of concern anymore.
2.3.8 *A Competitive Economy*

The original policies of privatization and deregulation have been merged as a new goal of achieving a competitive economy (these policies have merged in Table 1). A competitive economy, of course, could only be achieved by privatization and deregulation, but the main logic underlying both was to subject all enterprises to market discipline by maintaining hard budget constraints. It also highlighted the need for an effective official anti-trust policy. Deregulation is expanded to incorporate the labor market, although a moderate minimum wage is warranted.

2.3.9 *Property Rights*

While the original position of the significance of secure and well-defined property rights available to all was maintained, land reform was also recommended. Such reform emphasizes secure and well-defined property rights, but also contributes to equity. Hence, with the addition of land reform this entry is the same as version 1.0.

2.3.10 *Institution Building*

Institution building is a new entry. A major effort is required at building and/or rebuilding institutions, such as an independent central bank, strong budget offices, decentralization, independent and incorruptible judiciaries, and agencies to sponsor productivity missions.

2.3.11 *Improved Education*

In the original consensus it was recommended to reorient public expenditure priorities to education, among other things. In this version education becomes an entry on its own. An educated labor force is the most fundamental prerequisite for an economy’s rapid development. Improved education is essential for economic growth, income distribution, and the environment. However, expenditure on education should concentrate on primary and secondary schooling, given that university students, who are mostly from the privileged classes, should be able to fund their own education through student loans.

Hence, the Washington Consensus version 1.2, as presented in Table 1, consists of the eight original topics and two wish list topics (institution building and education). All relate to what Williamson personally regarded as additional reforms urgently required by Latin America in 1996.

2.4 *Washington Consensus as a Neoliberal Manifesto*

The ‘misinterpretation’ of the Washington Consensus as a neoliberal manifesto defined the consensus as the set of economic policies implemented by Ronald Reagan and Margaret Thatcher under the inspiration of Friedrich Hayek and Milton
Friedman. However, in this interpretation of the term, ‘Washington’ as an area of authority has expanded. The consensus was derived between 15th Street and 19th Street in Washington among the US Treasury, the IMF, the World Bank, as well as some influential think tanks, a prominent majority of academics, assorted editorialists, and, most importantly, business interests (Kolodko, 1999, pp. 6–7; Naim, 2000, p. 91). Based on the Washington Consensus as a neoliberal manifesto the reference to Washington suggested rightness on the part of Washington and thus implied the financial dependency of developing countries on Washington. While it is true that Latin American countries adopted the Washington Consensus formula, this acceptance did not imply that Washington was right. Washington institutions imposed their views on Latin America, and also on other countries, through policy conditionality. Support for the Washington Consensus was also provided from within Latin America, as Latin Americans with newly acquired doctorate degrees from US economics departments returned to positions of authority. Nevertheless, this process was also the product of Washington; Latin American students received generous scholarships from the USA to be taught the consensus, ‘just as in the colonial era’ (Stewart, 1997, p. 63).


2.4.1 Fiscal Discipline
Establish a balanced budget.

2.4.2 Public Expenditure Priorities
Reduce government expenditure.

2.4.3 Tax Reform
Enact overall tax cuts and eliminate taxes raised in order to redistribute income.

2.4.4 Financial Liberalization
Market-determined interest rates.

2.4.5 Exchange Rate Policy
Exchange rates ought to be fully convertible and free floating.

2.4.6 Trade Liberalization
Establish free trade and eliminate protectionist measures and capital controls.
2.4.7 *Foreign Direct Investment*
Abolish barriers to entry and exit for foreign firms.

2.4.8 *Privatization*
State enterprises should be privatized through vouchers.

2.4.9 *Deregulation*
Eliminate entry and exit barriers and suppress regulations designed to protect the environment and market-determined wages.

2.4.10 *Property Rights*
It is stipulated that the Washington Consensus did not generally show any interest in institutions, including property rights.

2.4.11 *Institution Building*
Establish an independent central bank and the money supply should grow at a rate consistent with monetarism.

2.4.12 *Price Liberalization*
While price liberalization was not included in the Washington Consensus, the neoliberal manifesto requires immediate price liberalization.

The Washington Consensus as a neoliberal manifesto is presented and contrasted in Table 1. Entries fiscal discipline, public expenditure priorities, tax reform, financial liberalization, exchange rates and trade liberalization are different, foreign direct investment, privatization and deregulation are the same as version 1.0, institutional building a new entry in version 1.2 is different, property rights was not a issue and price liberalization is a new entry.

Williamson was quite surprised that his conception of the Washington Consensus had been used to espouse ‘neoliberalism’ or ‘market fundamentalism’. The term had been misconstrued: ‘This struck me as an abuse of language’ (Williamson, 1996, p. 19) and ‘this I regard as a thoroughly objectionable perversion of the original meaning’ (Williamson, 2004–2005, p. 201). Being a student of Fritz Machlup, Williamson was always quite careful in his usage of words and terms, so that disagreements would not be mere reflections of verbal ambiguities: a consensus can only mean consensus (Williamson, 2002a, p. 5; 2004–2005, p. 199). As the Washington Consensus is a consensus between the IMF, World Bank and the US Treasury, Williamson (2002a, p. 5; 2004–2005, p. 201) reminds us that we should
ignore that Stiglitz was the World Bank's chief economist for three years and prior to this Chairman of the US Council of Economic Advisors. Therefore, Stiglitz determined the Bank's economic policy; it is quite logical to conclude that he contributed to some form of the Washington Consensus. Hence, it is quite peculiar for Stiglitz to label the Washington Consensus as a neoliberal consensus when he was part of Washington! Of course, there was never a consensus based on the set of policies that Stiglitz defines as the neoliberal manifesto (Williamson, 2002a, p. 5), as ‘... those using the term this way were apparently unconcerned with the need to establish that there actually was a consensus in favor of the policies they love to hate’ (Williamson, 2004–2005, p. 201).

Williamson has repeatedly maintained that the Washington Consensus was a lowest common denominator rather than a manifesto, and not even close to a neoliberal manifesto. It cannot be a manifesto, as it is not valid for all places at all times. As the ‘father of the Washington Consensus’, he claims the parental rights and the intellectual property rights to declare what the term signifies in the form that he invented it: ‘It is not a neoliberal manifesto, but rather a list of what a certain group of people believed at a certain point in time would have been good policy for a certain group of countries’ (Williamson, 1996, p. 21). The consensus claims ‘to be economic common sense’ (Williamson, 1996, p. 20) of the best-practice and well-tested lessons of the various post-war economic experiments with economic development. However, if ‘neoliberalism’ means what is widely accepted as ‘conservative’ or ‘neoconservative’, then the Washington Consensus, as it has been espoused by Williamson, cannot rationally be interpreted as a neoliberal manifesto. The Washington Consensus did not portray an extreme and dogmatic commitment to markets (Williamson, 2000, p. 252). Interestingly, the literature associating the Washington Consensus as a neoliberal manifesto almost never includes any citations to substantiate the line of reasoning that the international financial institutions actually hold these ‘neoliberal’ views (Williamson, 2004a, p. 2): ‘... it would have led to a better debate if they [critics of the Washington Consensus] had felt obliged to conform to the elementary academic good manners of citing support for their views’ (Williamson, 2004–2005, p. 201).

Williamson was questioning what neoliberalism actually meant, and eventually discovered that neoliberalism is a term originally coined to describe the doctrines espoused by the Mont Pelerin Society. After World War II, in 1947, 36 scholars, mostly economists, with some historians and philosophers, were invited by Friedrich von Hayek to meet at Mont Pelerin, near Montreux, Switzerland, to discuss the state and the possible fate of classical liberalism in thinking and practice. This Society became a scholarly group to promote the most right-wing version of the free market doctrines. Williamson argued that members of the Mont Pelerin Society would endorse most of the policy reforms in the original version of the Washington Consensus. Nevertheless, not all neoliberal doctrines are part of the Washington Consensus. As previously mentioned, monetarism, low tax rates, supply-side economics, a minimal state, ignoring income distribution and externalities, and free capital movements were not part of the Washington

The Washington Consensus did not propose (1) slashing government expenditure so as to achieve a balanced budget; (2) tax-slashing – there is no taxation phobia – especially those which redistribute income; (3) that exchange rates had to be either firmly fixed or freely floating; (4) competitive moneys or that the money supply should grow at fixed rate (monetarism); (5) abolishing capital controls; (6) suppression of regulations designed to protect the environment; (7) removal of incomes and industry policies; and (8) privatizing all state enterprises such as water and rail. In any case, ‘...let us at least have the decency to recognize that these ideas have rarely dominated thought in Washington and certainly never commanded a consensus there or anywhere much else except perhaps at a meeting of the Mont Perelin Society’ (Williamson, 2002b, p. 2). Rather, the Washington Consensus favored monetary discipline; tax reform; trade liberalization; and deregulation of entry and exit barriers. While it was true that privatization was derived from the neoliberal agenda, it became part of the consensus. Nevertheless it mattered how privatization was implemented. Deregulation did not imply abolishing safety or environmental regulations or regulations governing prices in noncompetitive industries. In sum, the Washington Consensus was a set of policy reforms that reduced the role of government in the economy. Nonetheless, ‘this need for liberalization did not necessarily imply a swing to the opposite extreme of market fundamentalism and a minimalist role for government...’ (Williamson, 2000, p. 256).

How could Williamson be accused of being a neoliberal or neoconservative? ‘In most cases my [Williamson’s] personal views on these controversial issues are far removed from those of neoconservatives, so I find it ironic that some critics have condemned the Washington Consensus as a neoconservative tract’ (Williamson, 1994, p. 18). Williamson considers himself a classical liberal in the tradition of John Locke, Adam Smith and John Stuart Mill (Williamson, 1996, p. 19; 1997, p. 49). The reason that policies such as equity and environment were excluded was because they were not eligible for inclusion in a lowest common denominator (Williamson, 1996, p. 19). Consequently, the term Washington Consensus has been used more ideologically than in the way that was originally intended. ‘This made me [Williamson] distinctly uncomfortable, because I do not regard myself as an ideologue (I define an ideologue as someone who knows the answer before he has heard the circumstances of a question), let alone an apostle for American imperialism’ (Williamson, 1999, p. 1). In sum, ‘indeed, I suspect that many of those who most fervently denounce the Washington Consensus as a neoliberal manifesto have never actually read what I wrote but that the hostility to what is associated with Washington was sufficient to persuade them that I must be an apostle of what they disliked’ (Williamson, 1996, p. 20) and ‘...the vast majority of those who have launched venomous attacks on it have not read my account of what I meant by the term’ (Williamson, 2004–2005, p. 199). Hence, ‘...if you mean what Joe Stiglitz means by it [Washington Consensus]. In neither case does
it merit all the ink that is spilled on the subject or all the foaming at the mouth that it provokes’ (Williamson, 2002b, p. 4).

Actually, ‘the criticism that hurt me [Williamson] the most came from within Latin America’ (Williamson, 2003c, p. 325), as the term implied that the reforms were made in Washington rather than initiated by domestic thought processes. Needless to say, that was absolutely wrong, Williamson claimed, as ‘Washington’ was not the incubator of the reforms but rather a target of propaganda. The aim was to change Washington’s mind, as Washington was skeptical of the reforms in Latin America. ‘Had my intention been to make propaganda for reform in Latin America, the last city in the world that I would have associated with the cause of reform is Washington’ (Williamson, 2003c, p. 325).

Williamson found some allies in his battle to disassociate the Washington Consensus from a neoliberal manifesto. Persaud (1997, p. 71) stated that ‘it is an insult to these reform economists that this change in thinking should be seen as a kind of brainwashing from Washington and from the US universities at which they had their training’. As well, the international financial institutions did not impose their reform policies on unwilling countries; rather, they were a vehicle in facilitating the reform decisions (Toye, 1994, p. 35). In the end, ‘I [Williamson] am not persuaded by the evidence usually cited to support the notion that there is a backlash against the reform . . . . So I see no persuasive evidence for the backlash thesis’ (Williamson, 1999, p. 16), because even ‘endorsing those criticisms does not mean returning to the global apartheid of the days prior to the Washington Consensus’ (Williamson, 2002b, pp. 3–4). Nevertheless, ‘the danger is that Stiglitz’s denigration of the Washington Consensus will serve to undermine the long-overdue consignment of this load of nonsense to the dustbin of history by those who do not realize what a narrow concept of the Washington Consensus he is using’ (Williamson, 2002a, p. 5).

So the question naturally arises whether the Washington Consensus is a neoliberal manifesto, as Williamson is dismissive of the claim while Stiglitz and others are in the affirmative. Obviously, there is some uncertainty regarding what the term Washington Consensus actually designates. This is because the debate was ill-defined. To make sense of this complex issue, it is helpful to view it from the perspective of the origin of the set of policies and its core function. When Williamson was constructing the lowest common denominator, the reference point of the Washington Consensus was the dismal Latin American experience with state intervention. Those who interpreted the Washington Consensus as a neoliberal manifesto, as the aforementioned writers, were constructing the policies of the manifesto using as reference point the East Asian miracle. It appears that the participants of the debate were talking about the historical experience of a particular region, which naturally was not necessarily relevant to other regions. The protagonist and the critic of the Washington Consensus were talking in circles, not covering any new ground as they will return to the original points covered.

Why did the term end up being used in such different ways? Williamson (2004–2005, p. 201) was unable to explain this divergence. On the one hand, there is the possibility that this was what some people really believed the international financial
institutions were advocating. On the other hand, there ‘...is the conspiratorial thesis that this was an attempt to discredit economic reform by identifying reformers with a pretty nutty set of doctrines’. Finally, Williamson (2004–2005, p. 197) admitted that ‘I [Williamson] said at the time that there was nothing on the agenda with which I did not agree, and I still think that what is there makes sense, although, undoubtedly, I would word a number of propositions somewhat differently today’.

2.5 Washington Consensus Version 1.3

Williamson (2000) re-revisited the Washington Consensus in a paper he published in *The World Bank Research Observer* titled ‘What should the World Bank think about the Washington Consensus?’ Here, instead of the Washington Consensus being the lowest common denominator of policy advice by Washington to Latin American countries as of 1989, it became a strategy to promote the goal of poverty reduction in developing countries that the World Bank had embraced. Naturally, the Washington Consensus was consistent with World Bank’s goals. In other words, Williamson’s aim was to confirm that the set of policies that the World Bank contributed to the formation of the Washington Consensus eventually reduce poverty. Hence, the World Bank should not abandon the Washington Consensus under the pressure of condemnation associated with the interpretation of the consensus as a neoliberal agenda. Williamson (2000, p. 258) still insists that ‘most of the reforms embodied in *my version of the Washington Consensus* are at least potentially pro-poor,... But I see no reason why the World Bank should back away from endorsing *my version of the Washington Consensus* in view of its reaffirmation of poverty reduction as its overarching mission’ (emphasis added).

A question arises: What initiated a change in Washington Consensus’ goal from economic growth to poverty reduction? Prior to Williamson’s paper being published, policy makers in Washington and Latin America had already adopted poverty reduction and equity, without sacrificing growth, as the new principal objective of development. ‘The shift in rhetoric about economic and social objectives has been dramatic’ (Birdsall *et al.*, 2001, p. 9). Here there was consensus regarding equity, not only within Latin America, but also from the international financial institutions, policy officials and academics. The international financial institutions and private donors introduced development targets regarding poverty, literacy and infant mortality, and drew attention to the importance of security, empowerment and opportunity. The change in thinking within the international community can be demonstrated by a number of initiatives: (1) the Inter-American Development Bank produced the research report *Facing up to Inequality in Latin America* (1998–1999); (2) the World Bank released a number of reports, *The East Asian Miracle* (1993), the *World Development Report 1997: The State in a Changing World, Global Economic Prospects and the Developing World* (1997b), the *World Development Report: Attacking Poverty* (2000–2001); (3) there was a review committee of the IMF’s Enhanced Structural Adjustment Facility in 1999 that identified a number of problems such as the lack of focus on poverty, an
excessive focus on stabilization relative to growth, and technical mistakes with respect to sequencing such as financial liberalization before establishing an effective regulatory structure; (4) the IMF renamed its assistance to the poorest nations the Poverty Reduction and Growth Facility; (5) both the IMF and World Bank linked debt relief for the poorest and indebted nations with poverty reduction strategies; and (6) the 1998 Nobel Prize in economics was awarded to Amartya Sen, who emphasized the association between human capabilities and political freedom as the means and objectives of development. In addition, the 1994 and 1998 summits of the heads of state of the Americas called attention to poverty reduction and equity. This was because Latin America had made little progress against poverty and income inequality. Due to the uncertain impact of globalization on Latin America and the world the vicious circle between low growth and persistent poverty is maintained, as poverty and inequality impede growth and low growth enhances poverty and inequality (Birdsall et al., 2001, p. 9). Latin American heads of states adopted poverty reduction, education and good governance as objectives of development superseding, but not purging, growth.

Strangely enough, Williamson’s starting point for this new version is the original set of policies of the Washington Consensus version 1.0 and not the latest version 1.2. Interestingly, in some instances Williamson mentions the discrepancies between the Washington Consensus and the ‘East Asian miracle’. The fact was that Williamson had to deal with the criticism that the recommended Washington Consensus set of policies contradicts the East Asian experience, as claimed by Fischer (1990), Stewart (1997) and of course Stiglitz, who presented the Washington Consensus as a neoliberal manifesto. Williamson’s (1999, p. 4) explanation of the success of East Asian economies was that they initiated macro stability, outward orientation and human capital investment, and less market liberalization. He defiantly asserted that success was not due to industrial policy. Williamson (2000) expanded his analysis by expressing his view of what should be added to the Washington Consensus to support egalitarian and environmentally sensitive development. In what follows, I outline the set of policies put forward by Williamson (2000) as the Washington Consensus version 1.3 in the order presented by the author and specifying how each policy enhances equity.

2.5.1 Fiscal Discipline

Fiscal discipline is vital both to equity and economic growth. Inflation caused by the lack of fiscal discipline hurts equity. Fiscal discipline makes funds available in bad times as a macroeconomic corrective to finance countercyclical social programs for the unemployed and the most vulnerable sections of the society. Thus, this entry is the same as version 1.0.

2.5.2 Public Expenditure Priorities

The elimination of indiscriminate subsidies would make funds available to finance education and health, improving human capital and thus improving income
distribution and equity. Thus, this entry is the same as version 1.0, highlighting switching expenditure in a pro-growth and pro-poor way.

2.5.3 Tax Reform

Broadening the tax base, taxing capital flight, and reducing marginal tax rates to a moderate level reduces tax evasion and also increases incentives enhancing equity. Thus, this entry is the same as version 1.0.

2.5.4 Financial Liberalization and Interest Rates

While in the original version Williamson personally had a preference for moderately positive interest rates, he now states that many economists, including himself, had reservations about financial and interest rates liberalization. Williamson (2000c, p. 258) admitted that he neglected financial supervision in the original formulation. Moreover, Williamson (2000c, p. 258) reiterates the need for financial supervision as in version 1.2, but adds that transparency would be a useful complement. Williamson does not favor direct lending as pursued by some East Asian countries. The abolition of preferential interest rates ensures access to credit for all, increases savings and reduces capital flight, instead of cheaper credit that does not enhance either equity or efficiency. Thus, this entry is the same as version 1.2.

2.5.5 Exchange Rates

As previously mentioned, Williamson wrongly claimed in the first version that there was a consensus regarding a managed competitive real exchange rate intended to maintain competitiveness. Nevertheless, maintaining competitiveness and stability would stimulate job creation and provide opportunities for the poor. Thus, this entry is the same as version 1.0.

2.5.6 Trade Liberalization

Import liberalization and abolition of quantitative trade restrictions reduces corruption and increases the demand for unskilled workers which is essential for equity. The moderate general tariff would provide temporary protection to domestic industries and therefore enhance opportunities for the poor. Hence, the original policy was reaffirmed, but there was a recognition that trade policies in some East Asian countries contradicted the consensus. Most importantly, Williamson (2000c, p. 257) was against capital liberalization, which resulted in the East Asian crisis. This was not included, as already mentioned, in the original version of the Washington Consensus since he did not then believe that there was a consensus on this issue. Obviously, as Williamson states, nobody could foresee that capital liberalization in East Asia would have had devastating effects. Thus, this entry is the same as version 1.0, but emphasizing against capital account liberalization.
2.5.7 Foreign Direct Investment

Foreign direct investment increases growth by providing capital, skills, technology and know-how which all benefit the poor. Wages and salaries for the skilled labor force would increase and the unskilled wages would not be reduced. Again, the original policy was reiterated with the qualification that East Asian countries (except the Republic of Korea) were less hostile than Latin American countries to foreign direct investment. Thus, this entry is the same as version 1.0.

2.5.8 Privatization

As in version 1.0, recognizing, however, that it is a controversial issue around the world. A proper privatization program requires competitive bidding which increases efficiency and improves public finances benefiting everybody, including the poor. Privatization could result in distributing capital more evenly as long as the institutional prerequisites existed to safeguard against increases in wealth concentration. However, privatization should not take place through the voucher method. Thus, this entry is the same as version 1.0.

2.5.9 Deregulation

As version 1.0, but qualifying the case for East Asian countries, where industry policy was pursued contrary to this goal. Deregulation stimulated the development of small businesses and created jobs, giving opportunities to the poor to work or set up small businesses. Deregulation also dismantled barriers that protect the privileged. Thus, this entry is the same as version 1.0.

2.5.10 Property Rights

As version 1.0, highlighting that in East Asian countries property rights were more secure than in most developing countries. Secure, uniform and low-cost property laws and judicial procedures stimulate not only growth, but also equity. The poor might also benefit by abandoning the informal sector under secure property rights. Thus, this entry is the same as version 1.0.

2.5.11 Institution Building

The central task of the transition economies had to be the building of the institutional infrastructure of a market economy as in version 1.2: ‘This realization was complemented by a growing recognition that bad institutions can sabotage good policies’ (Williamson, 2000c, p. 261).

Hence, it took more than a decade to demonstrate that the original Washington Consensus (version 1.0) also enhanced equity and reduced poverty as a result of efficiency and growth. This was not acknowledged by policy makers, as ‘those with influence at the time, in Washington and Latin America, brought their prior beliefs...
2.6 After the Washington Consensus

In the fall of 1999, during a conference at Princeton University, Pedro-Pablo Kuczynski expressed his concern to John Williamson regarding the economic stagnation in Latin America. Kuczynski suggested, once again, convening a team of experts for a comprehensive reassessment of the situation and to make recommendations. The director of the Institute for International Economics, Fred Bergsten, agreed and the team was established. The group met three times, twice in Washington (in 2000 and 2002) and once in Montevideo (2001), and produced a book edited by Pedro-Pablo Kuczynski and John Williamson titled *After the Washington Consensus. Restarting Growth and Reform in Latin America*. This volume ‘is all about reforms that need to be made in Latin America’ (Williamson, 2003d, p. 18) from 2002, ‘as to put them back on the road of catch-up growth that most people thought they had achieved before the debt crisis’ (Williamson, 2003a, p. 305). And ‘the purpose of this study is to develop a policy agenda for reviving economic momentum in Latin America’ (Kuczynski, 2003, p. 31). Williamson (2004a, p. 12) states: ‘I need first to outline what our new strategy, presented in Kuczynski and Williamson (2003), suggests (Latin American) countries ought to do’. Interestingly, Williamson, in a later paper, placed Latin American countries in parenthesis: was he reflecting the audience to which the lecture was addressed or was he implying, again, a universal strategy for developing countries?

Williamson (2003d, p. 2) empathized with Latin Americans, as they deserve to feel disappointed with the reforms’ outcomes. In 2001–2002 there was no net increase in output at what was the worst performance since 1982–1983, at the start of the debt crisis. Latin America remained the world champion of inequality (Navia and Velasco, 2003, p. 265). Latin Americans deserved to know what went wrong. Consequently, they want a new agenda that promises to correct the flaws of the past. Nevertheless, there was still faith in the original set of reform policies. Neither the Washington Consensus nor globalization can be blamed for the region’s disconcerting economic and social outcomes.

It would have been easy to dismiss the criticisms of the Washington Consensus on the basis of the fact that the term has been used with different meanings than what Williamson originally assigned to it. To avoid the easy solution, the first question asked was ‘Did the Washington Consensus fail?’ followed by ‘Can Latin America’s poor performance be legitimately attributed to the Washington Consensus?’ Williamson (2003d, p. 5) identifies three reasons why the outcomes did not match the aims of a decade ago. Firstly, the crisis vulnerability of the region was one of the major reasons for the disconcerting outcomes. The series of financial crises, starting with Mexico at the end of 1994, was the result of countries encouraging capital inflows. The result was overvaluing the currency or using a
fixed or crawling exchange rate as a nominal anchor, or pursuing a procyclical fiscal policy, with the consequence that countries became vulnerable to ‘sudden stops’ in capital inflows and unable to relax fiscal policy in hard times. On the one hand, it is true that the consensus did not stress crisis avoidance, as it was not an urgent issue in the late 1980s, whereas, on the other hand, it did not compel countries to pursue ‘such foolish acts’ (Williamson, 2003c, p. 328; 2003d, p. 5) that led to the crisis. Nevertheless, ‘crises have sometimes been caused by bad – that is dogmatic – macroeconomic policies’ and in this instance Washington, not Williamson’s Washington Consensus, is guilty of irresponsibly recommending capital account liberalization (Williamson, 2003a, p. 308; 2003c, p. 328). In this case, it is clear that Williamson is distinguishing between Washington’s consensus and his own version of Washington Consensus.

Secondly, the reforms were incomplete, less than ideal, and not pushed far enough. Some of the reforms were neglected (for example, the labor market) or were unfinished (as with financial reform) and while budget deficits were eliminated there was no attempt in good times to run budget surpluses that would have given the opportunity for deficit spending in bad times. Thus, the consensus cannot be responsible for governments that did not pursue the reforms as much as necessary. It appears that the institutional foundation, ‘the second-generation reforms’, for such resolute program was weak. Williamson (2003c, p. 329) admits that the Washington Consensus concentrated on policies, not institutions. Nevertheless, the recognition of institutional reforms as an important element for economic development took place in the 1990s. The Washington Consensus was a product of its time, when all the concern was on reforming policies. Thus, the consensus cannot really be blamed as ‘the Washington Consensus was not ahead of its time’ (Williamson, 2003c, p. 329).

Lastly, the objective of the reforms was too narrow; the objective remained accelerating growth without worsening income distribution, not growth with equity. But this was the view subscribed to by Washington in 1989. However, what is pointed out as a legitimate criticism is not that the reforms contributed to poverty, but rather that the reforms failed to deal with the structural causes of poverty. As a result, ‘…it would be a mistake to treat further trade liberalization as a reliable weapon for overcoming the region’s inherited inequality. It is perfectly reasonable to seek further trade liberalization on efficiency grounds; the point is that this one stone cannot be relied on to kill two birds’ (Williamson, 2003a, pp. 313–314). Williamson (2004–2005, p. 198) never had the intention for the list of policies to be used as a cookbook/manual. In conclusion, it is clear that countries ought not to have adopted the Washington Consensus as an ideology as there will always be other things that matter that are not included in the general set of policy guidelines, ‘and for a policymaker to imagine that s/he can stop thinking and simply follow a set of policies that someone else has concocted is irresponsible’ (Williamson, 2002b, p. 3).

Even in the case of Argentina, widely regarded as the poster child for the Washington Consensus (Williamson, 2003d, p. 2), although in 2001–2002 the country was embroiled in the deepest crisis that has been experienced in Latin
America since the 1980s, the Washington Consensus cannot be held responsible. In 1991, Argentina adopted a currency board that was successful in eliminating hyperinflation, but being a rigid system, it overvalued the currency to excessive uncompetitive levels. At the same time, Argentina failed to implement the strict fiscal policies required for the currency board to succeed. Both of these policies were not consistent with the Washington Consensus. Thus it is unwarranted to blame the consensus for Argentina’s disaster. ‘I find it a bit rich to hear the Washington Consensus blamed for Argentina’s implosion’ (Williamson, 2004a, p. 8) and ‘Look at items 1 [Fiscal Discipline] and 5 [Exchange Rate Policy] in the list above, and you will see why I resent people trying to blame the Washington Consensus for the Argentinean collapse’ (Williamson, 2004–2005, p. 199).

Independently of all this, it cannot be refuted that the term has been converted into a ‘damaged brand name’ (Naim, 2003). ‘There are people who cannot utter the term without foaming at the mouth’ (Williamson, 2002b, p. 1). However, the Washington Consensus has continued to gain wider acceptance, so that even Luiz Inácio da Silva, popularly known as Lula, the President of Brazil, has had to endorse most of the policies in order to be a serious contender. ‘For most part they are motherhood and apple pie, which is why they command a consensus’ (Williamson, 2002b, p. 1). Yet ‘... the sort of ideological debate in which the term customarily bandied around has long outlived any usefulness it may at one time have had’ (Williamson, 2004–2005, p. 196).

The aim of the new agenda is to correct all the aforementioned problems. As it has been demonstrated ‘the Washington Consensus did not contain all the answers to the questions of 1989, let alone that it addresses all the new issues that have arisen since then. So of course we need to go beyond it’ (Williamson, 2004b, p. 14). The book’s editors made a concerted effort of not ‘repeating ad nauseam’ the phrase ‘Washington Consensus’ in the text. ‘When a term has come to acquire such different meanings, it is time to drop it from the vocabulary’ (Williamson, 2003b, p. 12). The naming of the new set of policies ‘After the Washington Consensus’ was a conscious act to call attention to ‘our belief that it is high time the world moved on from tendentious ideological debates in which the Washington Consensus is caricatured as a neoliberal manifesto to serious discussion of the new wave of reform the region needs to restart growth and make it more equitable than it has been in the past’ (Bergsten, 2003, p. viii). There is no attempt to again establish a consensus. Rather, the set of policies offered are those ‘that the authors of this book believe are needed’ (Williamson, 2003c, p. 330) and ‘...it [After the Washington Consensus] is not presented as ultimate truth’ (Williamson, 2003a, p. 321).

There is no longer any consensus! Actually, Williamson (2003b, pp. 11–12; 2004–2005, p. 200) reminds us that there is disagreement on economic policy between the current US administration and the Bretton Woods institutions. Worth mentioning are the recent criticism of the US fiscal policy by the IMF in the World Economic Outlook (May, 2003), and the contrast between the current administration’s disregard for income distribution in the form of tax cuts and the World Bank’s increased focus on poverty and income distribution as in the World
Development Report (2000–2001). With regard to capital account liberalization, the IMF has retreated since the Asian crisis, while the Bush administration is still using bilateral free trade agreements to ‘bully’ countries like Chile and Singapore into reducing even the slightest capital controls (Williamson, 2003b, p. 12; 2004–2005, p. 201). Finally, US policies on agriculture and steel have received strong criticisms by international financial institutions. Therefore, it cannot argue that a consensus exists given the disagreement on economic development policies between the Bush administration, the IMF and the World Bank (Williamson, 2003b, p. 12). There are at least three major issues: fiscal policy, capital account, and income distribution ‘with which the current stance of the Treasury is at loggerheads with the views expressed by the IMF and the World Bank’ (Williamson, 2004–2005, p. 200). There is a consensus, however, between the Bretton Woods institutions but not between the Bretton Woods institutions and the US Treasury. Hence, overall ‘consensus has evaporated’ (Williamson, 2004–2005, p. 200). Nonetheless, there is consensus in Washington, but now ‘Washington’ is defined as only the international financial institutions. In addition, the new agenda does not involve the rejection of the Washington Consensus but the completion of the reforms. Hence, After the Washington Consensus incorporates a consensus in Washington, but in a smaller degree than before. This new agenda requires the completion of the original reforms, not rejection, supplemented with new reforms. The naming of the new agenda is quite consistent.

In the following discussion, I outline the policies of the After the Washington Consensus based on Kuczynski and Williamson (2003) in the order presented by these authors with the stipulation how each policy relates to the original Washington Consensus and placed in Table 1.

2.6.1 New Agenda I: Crisis Proofing

This objective is of highest priority. Governments should attempt to reduce vulnerability to crises and stabilize the macro-economy. Volatility also explains the high unequal distribution of income. This policy requires stabilizing inflation (consistent with the original Washington Consensus); stabilizing the real economy through Keynesian policies; subjecting national governments to hard budget constraints; establishing a stabilization fund; flexible exchange rates; minimizing the use of the dollar; monetary policy targeting a low rate of inflation; strengthening prudential supervision; and an increase in domestic savings. This policy is placed in Table 1 in the following entries of the original Washington Consensus: fiscal discipline, public expenditure priorities, financial liberalization, exchange rates, trade liberalization, and institution building.

2.6.2 New Agenda II: Completing First-Generation Reforms

Completing, rather than reversing, the original Washington Consensus reforms. The original formulation of the Washington Consensus was a sensible, yet incomplete, reform agenda (Williamson, 2004–2005, p. 196): first of all, liberalizing the
labor market, so as to encourage labor back into the formal sector where it is at least minimally socially protected and income is taxed; complementing import liberalization with better access to export markets in developed countries; continuing the privatization program, even though in some cases it was carried out poorly; supplementing financial liberalization by strengthening prudential supervision. Williamson (2003a, p. 308) reminds us that ‘reducing government intervention in the economy is not the same as a desire for a minimalist government’. This policy would be placed in Table 1 in all the entries of the original Washington Consensus.

2.6.3 New Agenda III: Second-Generation Reforms

In the 1990s a key innovation in development economics was the recognition of the crucial importance of institutions in ensuring that the economy functions effectively, which Naim (1994) has termed ‘second-generation reforms’.11 A vital role for the state, which is perfectly consistent with mainstream economics, is creating and maintaining effective institutions, providing public goods, internalizing externalities, correcting income distribution, decent infrastructure, a stable and predictable macroeconomic, legal and political environment, and a strong human resource base. The second generation of reforms involves, in addition to the aforementioned requirements, reforming the judiciary; teachers and civil services; building a national innovation system to promote the diffusion of technological information, fund precompetitive research, providing tax incentives, encouraging venture capital and industrial clusters; modernizing the market institutional structure including property rights and bankruptcy laws; and institutional reform in the financial sector such as strengthening prudential supervision. However, it would be a mistake to initiate an industrial policy, a program that requires government to ‘pick winners’. There is more support for a ‘cousin’ of industrial policy (Williamson, 2004b, p. 11), a national innovation system that is government policy to create an institutional environment in which those firms that want to innovate find the necessary supporting infrastructure such as to provide technical education to promote the diffusion of technological information; to fund precompetitive research; to provide tax incentives for R&D; to encourage venture capital; and to stimulate the growth of industrial clusters and so on. There is also the recognition that the second generation of reforms would differ for each country and cannot be determined a priori from the agenda, as it was stipulated by Rodrik (2002, 2004). Williamson (2004b, p. 13) recognizes that this is a departure from the Washington Consensus, which focused on policies rather than institutions. This policy would be placed in the row labeled ‘Institution building’ as the result of the entry by the Washington Consensus version 1.2.

2.6.4 New Agenda IV: Income Distribution and the Social Sector

Benefits of economic growth usually trickle down; however, the poor will not benefit much since they do not have sufficient resources to begin with, as in Latin
America. Therefore, a case could be made for supplementing the gains of growth with a degree of income distribution. Progressive taxes are the traditional means for income redistribution; for instance, levying heavier taxes on the wealthy. While tax reforms have been implemented to broaden the tax base in Latin America by shifting from direct to indirect taxation, Williamson (2003d, p. 16) now favors reversing this process and increasing direct tax revenue by establishing property taxation as the major source of revenue, eliminating tax loopholes, and taxing income earned on flight capital. An increase in tax revenue should be used to reduce inequality by expanding opportunities for the poor, increasing spending on basic social services, social safety nets, education, and health. However, the strategy focuses more on measures to empower the poor to exploit potentialities (‘bootstraps’), rather than a massive redistribution of income through tax (‘Band-Aids’). It is a long-run strategy to allow access to assets that will enable the poor to earn their way out of poverty by improved educational opportunities, titling programs to provide property rights to the informal sector, land reform, and microcredit. ‘Hence, our focus is on both accelerating growth and improving income distribution. We believe that both are possible and both are necessary’ (Kuczynski, 2003, p. 31). It is quite interesting to note that chapter 3 of the book *Bootstraps, Not Band-Aids: Poverty, Equity, and Social Policy* was co-authored by Nancy Birdsall who also co-authored the *Washington Contentious*. Her influence was astounding in this policy formulation.

In the *Washington Contentious* entry No. 5 was ‘Taxing the rich and spending more on the rest’, which now is consistent with the *After the Washington Consensus*. ‘Income distribution’ would be placed in Table 1 in the tax reform entry of the original Washington Consensus and the ‘social sector’ in the public expenditure priorities.

This version of the Washington Consensus consists of foreign direct investment, privatization, deregulation, and property rights which are the same as version 1.0, while the remaining entries consist of the original reforms with additions regarding either crisis building, social sector, income distribution or second generation of reforms. Williamson (2003d, pp. 18–19) admits that this strategy largely ignores or touches only briefly on democracy, social progress, illegal drugs, environmental issues, the 2002 crisis in Argentina and Brazil, other global policies, and sequencing. It is clear that what the region needs is not an immediate boom but rather sustainable and sustained growth that encourages the private sector, multinationals and micro-entrepreneurs to invest. ‘Latin America will never break out of the crisis syndrome unless it pays more attention to long-term issues . . . ’ (Williamson, 2003a, p. 321). Nevertheless, ‘the way forward is to complete, correct, and complement the reforms of a decade ago, not to reverse them’ (Williamson, 2003d, p. 18). This is consistent with ‘reform the reforms’ as the Inter-American Development Bank program adopted in its 2002 annual meeting.

There is significant overlap, but not complete, between the original Washington Consensus and the *After the Washington Consensus* set of policies (Williamson, 2003a, p. 320). Some of the original reforms of the Washington Consensus – liberalization of foreign direct investment and interest rates – have been achieved. New reforms have also been added, such as empowering the poor and crisis
proofing. This is quite expected; as time passed the relevance of the original reforms, research and events modified what was professed as urgent. ‘Of course, none of this argues for abandonment what I meant by the Washington Consensus’ (Williamson, 2003c, p. 329). This time, however, there is less danger that the new list will be mistaken for a cookbook/manual (Williamson, 2004–2005, p. 205).

The authors of this new agenda have expressed their hope that it will not be called the ‘Washington Consensus II’: ‘It is not the work of the Washington insiders. It makes no attempt to report a consensus (we did not even reach complete consensus among ourselves). The phrase has become so hopelessly ambiguous as to constitute an obstacle to clear thought. Let the agenda instead be assessed on its merits, as a contribution to a much-needed discussion of where economic reform should be heading as (hopefully) we leave behind the stale ideological rhetoric of the 1990s’ (Williamson, 2003b, p. 13).

3. Conclusion

Williamson (1999, p. 1) stipulated that the concept of what constitutes reform is not at all static. However, he states ‘...in my more optimistic moments I still dare to hope that the broad objectives of the reform movement will come to enjoy the same general acceptance that human rights and democracy do, as things about which there is no need to do battle because the battle has been won and almost everyone is content with the outcome’ (Williamson, 1999, p. 16). Effectively, Williamson attempted to introduce a paradigm for economic policy, reform and development. Paradigms result from people’s need to understand and attempt to control their environment by fitting observations into some pattern to assist with the development of thought. Paradigms necessarily abstract from details so as to develop a framework for understanding the complexities of the real world and attempting to reflect actual practices and processes. ‘One of the great benefits of admitting that we agree about the general direction that we wish reform to take is that this will liberate us from much-needed debate about the details of reform’ (Williamson, 1999, p. 20).

This result in competing economic paradigms derived from scientific observation. Different types of casual stories may have very different implications for what it is possible to achieve by way of policy and social action. Thus, competition is relevant, indeed crucial, for establishing what alternatives are viable within a given framework. The ‘battle of ideas’ focuses on which paradigm is most realistic, feasible, desirable, and appropriate for the process in question: ‘Everyone in this room could subscribe to this general version of the Washington Consensus without the slightest danger of our lacking topics for future controversy’ (Williamson, 1999, p. 20). Awareness of such background facilitates the interpretation of the less than clear sources of disagreement between economists and of the overall complexities involved: ‘I believe, however, that our controversies would become more constructive’ (Williamson, 1999, p. 20). Consequently, the establishment and evolution of the term Washington Consensus, as the result of subsequent interpretations and misinterpretations, expansions and contractions, agreements
and disagreements, and lastly in attempting to maintain originality or offering alternatives, can be viewed, as far as Williamson’s goal is concerned, as necessary in a struggle to establish a ‘consensus’ on economic policy, reform and development. In addition, the Washington Consensus necessarily evolved due to major events or intellectual changes from the original Washington Consensus as the lowest common denominator of the economic reforms in Latin America, to what I name version 1.2 as a result of a more worldwide socially responsive economic policy, followed by Williamson’s wish list, subsequently the ‘misinterpretation’ of the consensus as a neoliberal manifesto, then version 1.3 a strategy to promote poverty reduction in developing countries and finally the After the Washington Consensus as a policy agenda reviving economic growth in Latin America. Thus, the term inevitably evolved due to the instigated debates, criticisms, major global events, and intellectual changes.

Nevertheless, Williamson should cherish his critics but also protect them from mistakes. Hence the battles in the form of debate, dissent and compromise have been and remain essential elements in the process of endeavoring to establish the general agreement, ‘the consensus’. Moreover, this struggle will continue, independently of whether a consensus or not is established in the end. However, the notion of a consensus over the correct economic prescriptions for economic development is becoming more and more difficult to sustain, as Santiso (2004, p. 841) concludes that there is only an ‘uncertain consensus’.

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Notes

1. Mainstream theory incorporates public goods and externalities, Keynesian economics and public choice theory. ‘Anything, say, for which the Nobel Committee has seen fit to award the Nobel Prize’ (Williamson, 1999, p. 2).
2. Meanwhile, there is a line of reasoning that shock therapy is not consistent with the Washington Consensus (Marangos, 2007; Williamson, 2007).
4. The Brady Plan, the principles of which were first articulated by US Treasury Secretary Nicholas F. Brady in March 1989, was designed to address the debt crisis of the 1980s. The debt crisis began in 1982, when a number of countries, primarily in Latin America, confronted by high interest rates and low commodities prices, admitted their inability to service hundreds of billions of dollars of their commercial bank loans.
5. A ‘white elephant’ is a valuable possession which the owner cannot dispose of, but whose cost, specifically maintenance cost, exceeds its supposed usefulness.
6. A competitive exchange rate is a rate that is either not misaligned or undervalued; nevertheless overvaluation is worse than undervaluation (Williamson, 2004–2005, p. 200).
7. Williamson (2004b, p. 3; 2004–2005, p. 195) later explained that liberalizing the inflow of foreign direct investment did not imply liberalization of capital inflows–outflows. Regrettably, he did not emphasize this stipulation which in due course was interpreted in this way. He purposely did not include comprehensive capital account liberalization; it did not command a consensus in Washington. Afterwards, he named this specific policy ‘Liberalization of Inward Foreign Direct Investment’ to avoid the accusation that he recommended capital account liberalization.

8. Although it is not clearly stated deregulation should also be applied to the labor market (Williamson, 2003c, p. 324).

9. It is interesting to note that Williamson confessed to Birdsall et al. (2001, p. 5) that he added property rights mostly to get 10 items. Speculating, from my part, the goal might have been to establish the ‘10 Commandments of Economic Policy’ (Williamson, 2004a, p. 3).

10. Williamson (2003a, p. 320; 2004a, p. 13) accepts that some situations favor fixed rates and in the case the economy is dominated by the USA, dollarization is advised.

11. Williamson (2003d, p. 2; 2003b, p. 13) acknowledges that the term ‘second-generation reforms’ is a misnomer, inasmuch as effective institutions might be a prerequisite for liberalization, which necessitates that the second-generation reforms ought to precede the first!

12. University students should pay a substantial part of the cost of their education, a call for cost recovery. Public expenditure on higher education should provide student loans and scholarships for the truly needy. ‘...but middle-class students who riot against being charged for access to a lifetime of privilege are the true enemies of an assault on inequality, and they need to be told so’ (Williamson, 2003a, p. 315). This was also stipulated in the Washington Consensus version 1.2.

References


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