The Strange Case of The Washington Consensus

A Brief Note on John Williamson's "What Should the Bank Think about the Washington Consensus?"*

John Williamson has done us all a service by revisiting the strange history of the term he invented—The Washington Consensus. As he notes, "I have realized that the term is often being used in a sense significantly different to that which I had intended, as a synonym for what is often called 'neo-liberalism' in Latin America, or what George Soros (1998) has called 'market fundamentalism'." Williamson revisits his definition, looks at current usage, discusses whether either of the two versions does indeed promote poverty reduction, and proposes a way ahead. His way ahead is essentially to recognize different uses of the term, to recognize that we need to go beyond the policies listed in his version of the Washington Consensus, give up on any hope of a general consensus and discuss issues one by one, and finally to stop using the term Washington consensus to mean different things, especially in its 'neo-liberal' version.

These are all sensible suggestions. I think, however, something can be learnt from the strange history of how and why Williamson's term came to be used in the way it is currently used, and it is that which I want to focus on here. Before doing that, however, let us review the original concept. As Williamson notes, "My original paper (Williamson 1990, Ch 2) argued that the set of policy reforms which most of official Washington thought would be good for Latin American countries could be summarized in ten propositions:

*Fiscal discipline.
*A redirection of public expenditure priorities towards fields with high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure.
*Tax reform (to lower marginal tax rates and broaden the tax base).
*Interest rate liberalization.
*A competitive exchange rate.
*Trade liberalization.
*Liberalization of FDI inflows.
*Privatization.
*Deregulation (in the sense of abolishing barriers to entry and exit).
*Secure property rights."

Williamson then discusses his current views on these ten, and also on their connection to poverty reduction. I think his assessment can be fairly summarized as saying that while his basic stance on the efficacy of these policies is intact, he would now take a more nuanced view on some of them (like privatization—depends on how it is done; interest rate liberalization—has to be seen as coming towards the end of a broader process of financial sector liberalization, etc.).

* A slightly amended version of comments made at a PREM Week panel in the World Bank in July 1999.

On the substance of Williamson's original version of the Washington consensus, I would agree that we need a more nuanced view of the impact of these policies on poverty reduction. I would in fact go much further, and emphasize that local realities matter and a broad approach as captured in one consensus or another is bound to be problematic if applied across the board. On some issues, like trade liberalization, I would be more skeptical than Williamson—at least, I would be even more wary of making blanket statements.

However, my focus in this comment is on how Williamson's original formulation became transformed such that the term Washington Consensus became associated with neo-liberalism. And there is no question that this happened—many who now use the term in this way would be surprised indeed to discover that item number two in Williamson's formulation was redistributive reallocation of public expenditure! But the transformation happened. The question is why? Although he does not dwell on it, one senses in Williamson's note a view that the term was conveniently turned to such usage by those who needed something to attack—those who opposed the market liberalization (however nuanced) part of the agenda, for example. But I believe there is more to it than this, and in expressing this view I draw on my experience in the Operational part of the World Bank.

It might be useful to start with the observation that the Washington Consensus became what it did, not what it said. For example, Williamson notes that "when I reviewed the progress in Latin American countries had made implementing the recommended set of policies several years later, I concluded that the least progress had been made in implementing the second policy, redirecting public expenditure policies." Well, is it not then understandable that those in civil society who saw outcomes rather than read Williamson's original paper, would conclude that the Washington Consensus did not contain item number 2? The same is true of the other items, where those in developing countires might have seen positions espoused, by representatives of Washington institutions, which were not as nuanced as Williamson's original or more recent formulations.

And here we come to what to me is the most important point. Mindset, and stance, are all important. There is no question in my mind that in the 1980s, and to a certain extent well into the 1990s, many saw the main task as being storming the citadel of statist development strategies. In this mindset, nuances were beside the point—intellectual curiosities which paled in comparison to the benefits of rapid and deep movements away from the former paradigm. And, moreover, Washington institutions were deeply suspicious of the real intentions of those they were dealing with. They suspected, perhaps rightly, that those on the other side were hell bent on preserving the status quo. In this setting, a negotiating stance, rather than a dialogue based on mutual comprehension, was appropriate. So the negotiators from Washington always took a more purist stance, a more extreme stance than even their own intellectual framework permitted (they were all surely well schooled in the theory of the second best). "Give them an inch of nuance, and they'll take a mile of status quo", seemed to be the mindset and the stance. "If you want 28 enterprises privatized, start by asking for 56", seemed to be the opening gambit. Is it any wonder then, that those on the other side came away with the impression that those from Washington had a consensus, and one which did not match Williamson's nuanced formulation?

I am exaggerating, of course. But all of us involved in Operations will surely recognize what I have described. And the situation now is very different. The empirical outcomes have forced a nuancing of even the intellectual analysis (with much greater appreciation of the conditional nature of the original policy prescriptions); the triumphalism of "the end of history" is much abated, and it has slowly come to be realized that if the government and the population of a country are not convinced about reforms then they probably won't stick and the aid which flows behind them will be wasted. It is these lessons which I think are important for those who will represent Washington institutions in the first decades of the twenty first century.

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Reference

Williamson, J., "What Should the World Bank Think About the Washington Consensus," Institute for International Economics, Washington, D.C., July 1999, http://www.iie.com/papers/williamson0799.htm. Published subsequently in the World Bank Research Observer, 2000.