Is the washington consensus good or bad

The Washington consensus is a set of policies often recommended to and pushed on developing countries by western governments and organizations. One of these organizations is the IMF, which often imposes or “ heavily recommends” these policies to developing countries in crisis who are looking to get an IMF loan in order to pay back loans taken from international financial markets, which they are often in danger of defaulting on. While many of the policy recommendations will in no doubt produce a positive economic result for the developing country, some of the policies can be negative economically, environmentally, and socially.

There are ten different sets of policy recommendations in the Washington Consensus. The first one is fiscal discipline, which to me seems like it could only be a positive thing for a developing country. A balanced budget with all money accounted for is a necessity for a developing country. Without a balanced budget a country’s debt will continue to increase, laying the groundwork for future crises. It may be possible to fix the short-term problems without balancing the budget, in the long term the debt will catch up to you and make the situation worse. The only negative aspect of this recommendation is that some of the budget cuts that may be necessary for a balanced budget will take away money from programs that may help people and therefore produce a negative social result on the civilian population.

Public Expenditure Priorities is the second policy recommendation by the Washington Consensus. This means redirecting “ misspent” government funds to areas with more potential for higher economic returns. It is suggested to take money away from areas such as administration, defense,

indiscriminate subsidies, and white elephants, and instead spend that money on areas such as primary health and education, and infrastructure, which will definitely produce positive results for the economy. This seems like a policy that would be a good one for a developing country in a crisis to adopt, as long as it doesn't take it to the extreme. By that I mean that any country can only afford to take away a certain amount of money from areas such as defense and administration. So, therefore, this policy will only work for countries that are already overspending in these areas.

The third policy recommendation is Tax Reform, which is meant to increase government revenues, and to make sure that the right part of the population gets taxed. John Williamson, the author of Democracy and the " Washington Consensus", says, " The aim is to sharpen incentives and improve horizontal equity without lowering realized progressivity." He also says that taxing interest on assets held abroad, known as " flight capital", is a very important aspect for a developing country. This makes sense because the economic elites in developing countries often take their money and invest it abroad because it is safer and generally can produce better returns. The governments of developing countries cannot afford to lose out on this revenue and therefore taxing this " flight capital" is a necessity.

Financial Liberalization is the fourth policy recommendation. John Williamson says that the ultimate objective should be market-determined interest rates, but that this is often next to impossible in an economy where there is extreme lack of confidence in the market. In this case it is recommended that the interim solution should be the " abolition of preferential interest rates for privileged borrowers and achievement of a moderately positive

interest rate." Market determined interest rates in developing countries are often not possible and at least Williamson acknowledges this and suggests the elimination of preferential interest rates in the short term.

The fifth recommendation deals with Exchange Rates. Williamson says that developing countries need to have a unified and accepted exchange rate that is competitive in order to induce a rapid growth in non-traditional exports. He says that because ELG has been shown to so successful, and that a competitive exchange rate is so important to this success, developing countries should place an added emphasis on accomplishing this. There are disagreements over how to accomplish a competitive exchange rate among economists. Some say that floating the exchange rate is the way to go, while others say that this will lead to extremely high inflation rates and that a government regulated exchange rate is a better way to pursue this.

Trade Liberalization is one policy of the Washington Consensus that is disagreed on by many economists and analysts. Williamson says that quotas should be " rapidly replaced" by tariffs. Economists disagree on the time limit a developing country should set for phasing out tariffs as well as what countries that are in recession should do to accomplish trade liberalization. The problem with this policy is that the markets of developing countries often become vulnerable to foreign influence once they lose the ability to protect their domestic industries through quotas and tariffs. This often prevents domestic industries from growing to their potential and instead translates into foreign influence over your domestic market.

The seventh policy recommendation deals with Foreign Direct Investment and is very similar to Trade Liberalization. Williamson says that any barriers impeding the flow in foreign capital and firms should be abolished and that all foreign firms be allowed to compete equally with the same rights and privileges extended to domestic firms. Again, this often leads to foreign domination of the market. This can also lead to a situation where even though the industries in a developing country may be very profitable, these profits do not generally remain in the developing country where they were made, and instead turn into " flight capital."

Privatization is another highly debated element of the Washington Consensus. While it is generally agreed upon that governments are not good at running efficient and profitable industries, the best way for governments to sell off industries and to privatize is often debated. Privatization can either be a good or bad thing for a developing country. It all depends on how the process is done and to whom the industries are sold to. If they are all sold to foreign interests and individuals, this can lead to the same problems listed in the previous paragraphs on Trade Liberalization and FDI.

Deregulation is very similar to trade liberalization and FDI because its goal is abolish restrictions impeding the entry of foreign firms or that restrict competition and to " ensure that all regulations are justified by such criteria as safety, environmental protection, or prudential supervision of financial institutions. Again, this can lead to the same problems discussed in the previous few paragraphs in terms of foreign influence and control.

The tenth, and last, recommendation of the Washington Consensus is an essential element for any country that intends to work towards becoming a developed country. Property Rights need to assured through a well-established and consistent legal system so that people are confident in the market and government making them eager and willing to invest without fear of losing their assets.

After some thought about whether I believe the Washington Consensus, and its policy recommendations, to be either a positive or negative way to go for developing countries in a crisis, I decided that it depends on exactly how a country and government interprets and implements many of the policies. While some of the policies are obviously going to be beneficial immediately for a developing country’s economy, many other policies, if not implemented in a way specific to a country and their specific situation, will only make the situation worse and hurt them in the long run.