The ideology of the washington consensus economics essay

It can be argued that 1989 was a great year for world history. The fall of the Berlin Wall marked the beginning of the end of the Eastern bloc. This gave rise to Francis Fukuyama to argue about the " end of history." The apparent triumph of capitalism has led to changes in the economic policy followed since then, involving all the countries of the world.

The new economic policy, known as « Washington Consensus», consisted of a package of 10 structural change aiming to achieve full liberalization of global markets from any regulations which existed until then. The acceptance of this framework by international organizations and by the governments of the world, were nearly unanimous. The economic policy followed literally the guidelines of the international organizations to achieve the objectives laid down by the so-called " Washington Consensus." This study aims to better understand the ideology of " Washington Consensus", by analyzing its ideological theoretical background, how it is structured and functioned. Also by analyzing the criticism received from various schools and eventually its empirical practice through various examples.

Ideological structure and function of " Washington Consensus"

The debate around the term " Washington Consensus" was created in 1989 by John Williamson (Williamson (2004b)). The term was introduced at a time when the sovereignty of Keynesian economic theory had collapsed – after the crisis of the mid '70s and the apparent inability of Keynesianism to face it, neoliberalism (promoted by the Reagan and Thatcher governments in the U. S. and Britain, respectively) have become the new orthodoxy.

The purpose of Williamson was to codify that part of the neo-liberal analysis and policy proposals have become commonly accepted in the theory of development and especially in the circles of major development institutions (primarily the IMF and World Bank) based in Washington. Consequently, the term “ Washington” refers to influential circles and institutions based in Washington. And the term “ consensus” refers to that part of the neo-liberal prescriptions have become widely accepted.

There is another dimension to the geographical term “ Washington Consensus”. Such policy prescriptions were created primarily to the economies of Latin America in the 90s, but then spread elsewhere in the developing and least developing world. Again according to Williamson (2000, s. 251), the term refers to “ the lowest common denominator of policy advice addressed by the Washington-based institutions in Latin America since 1989. Williamson (1990, 2000, s. 252-3) summarizes these policy prescriptions in ten suggestions:

1) Enforce Fiscal Discipline

2) Redirection of public spending priorities to other areas.

3) introduction of tax reforms that would reduce the percentage tax burden and broaden the tax base.

4) Release rates

5) Competitive Exchange Rate

6) Trade Liberalization

7) liberalization of FDI inflows

8) Privatization of state-owned enterprises

9) deregulation of economic activities

10) Create a safe environment in terms of property rights

The theoretical foundations of these proposals can be discovered easily. It is usual analysis promoted by the neo-liberal economic theory. Economies in crisis due to the existence of barriers to the free play of market forces. The obstacles come from the bloated Keynesian interventionist state and its expansionist and redistributive policies that distort the information and market signals. The solution, according to neo-liberal order, would be the withdrawal of state from the economy and restoring the unimpeded functioning of the market. We must therefore impose fiscal discipline on the activities of government and a return to balanced budgets (as opposed to the Keynesian deficits and expansionary budget). Limited public spending now should be directed towards areas that would cover the costs (perhaps through the imposition of compensatory payments) and to support entrepreneurship in the private sector rather than being used to pay for public works and redistributive policies. Then, the tax system should be reformed so as not to hit hard corporate profits and incomes of the upper layers, which are considered to be the engine of the economy. Finally, the limited public expenditure could be met with fewer taxes. Moreover, the functioning of the financial system must be freed from the shackles of government and rights and allowed the free play of market

forces. Consequently, the rate should be determined more or less competitive. The withdrawal of the state of the economy also requires the privatization of all activities and businesses were run and owned by the state, reduce to a minimum all state regulations and provide adequate assurance that there will be no violations of any rights property (as had happened previously with the nationalizations, etc). With the advent of second generation of neoliberal theories, which stressed the openness of economies, the previous set of policy proposals, supplemented by three others that were aimed at liberalizing international trade, capital movements and financial activities. Consequently, protective measures should be removed and establish free trade. I also had to ensure the free movement of international capital investment. And last in the series but not in importance is that international economic transactions and, primarily, the rate of the currency should be determined according to market rules rather than state policies.

All these ideas were already well established as orthodoxy in developed countries in the 80s. The Washington Consensus aimed at introducing these ideas in developing and least developed countries. According to Williamson, it seems that there was some kind of global apartheid, under which developing countries came from a different world that allowed them to benefit from (a) inflation (so they can collect taxes and increase investment) (b) the main role of the state at the beginning of industrialization and (c) the substitution of imports. The Washington Consensus aimed to break this differentiation.

However, there is a strong criticism against the policies of Washington Consensus. These criticisms come from the orthodox economics (Atkinson , 1999), Rodrik (2003) and especially from a stream associated with the work of J. Stiglitz (1998) as well as Marxist political economy (Fine (2001) and Shaikh (2003)). An important point in this controversy was the very definition of the term “ Washington Consensus”. For almost all critics of the term was synonymous with liberalism and a blind market fundamentalism. Williamson (2000) made a feeble attempt to defend his term that it was not his intention to define the word so close to neoliberalism. He claimed that he simply codified the term “ consensus” within the major institutions in Washington and that it was a technocratic version, free of ideological and political motives. He also claimed that the “ Washington Consensus” was not even a policy prescription, but simply a list of policies Reform, which supports the previous view and agrees that during the introduction of the term these two coincided (Williamson (2000).

Despite his arguments he cannot contest that the “ Washington Consensus” has a specific ideological and political background: that of neo-conservative policies of the last quarter of the 20th century. In addition, the Washington Consensus may not represent a simple set of policy proposals. It is clearly a backbone on which a building is built. This is accepted even by Williamson when he argues that there are three big ideas behind the Washington Consensus: macroeconomic discipline, market economy and the opening of economy (at least on trade and foreign direct investment). The macroeconomic discipline of “ Washington Consensus” is a particular type and has specific priorities that distinguish it from other types of macroeconomic policies. It certainly has nothing to do with either Keynesian macroeconomic policies, macroeconomic policies or other more radical directions. In almost all cases led to implemented strict austerity budgets and policies that favored the richest and worsened the position of the lower social strata. The same thing applies in relation to the pressure on both the adoption of the concept of market economy and the idea of opening up the economy. The first comes from the neoconservative capture of the economy of the role of the state and the alleged inability to properly manage the economy. The second has the same origin as the first and complemented by the belief that it will lead to increased competition and thus will ultimately benefit consumers. The " Washington Consensus" is a direction dictating a policy prescription and indeed, numerous reform programs imposed – willingly or unwillingly – in the less developed or developing countries.

There is also an intense debate about whether the Washington Consensus has promoted the development of developing and least developed economies or not. Today there is a widespread belief that it failed and led to crisis and misery.

After the first years of implementation of policies and reforms of the " Washington Consensus" has been a growing feeling among friends and between enemies, having failed in its promises. More specifically, since the late 90s onwards, the " Washington Consensus" was facing serious difficulties on various issues, which although not included in the stated objectives, but it is critical to the development process. It was criticized for failing to organize a process of adjustment " human face" and thus to cause social unrest. Moreover, it was criticized for failing to make significant progress in the growth rates of developing economies, especially in development. Series of studies suggest that its policies have led to increased poverty and inequality both between developed and developing countries and least developed economies and within countries. Moreover, the apparent inability of developing and least developed economies to catch up with the pace of economic growth in developed countries and in many cases increasing the gap between them, was attributed to the policies that were motivated by the " Washington Consensus".

For almost everyone who react critically, argue for the inability of the " Washington Consensus" to address issues of poverty and inequality. " Washington Consensus" theory was that poverty and inequality problems were minor problems, which pretty much would be eliminated once the market was free to work, undisturbed by the barriers of ineffective state intervention. In particular, it was considered that if the domestic markets were free from any obstacles, then the free movement of capital, domestically, but especially internationally will provide all the incentives and efficiency necessary for a sustainable development (Kozul-Wright & Rayment (2004).

Against these proceeds from the assumption of market fundamentalism, most practitioners review indicates that during the last twenty years of the 20th century after the implementation of policies of " Washington Consensus" and the structural changes that are implied there was an apparent increase in poverty and inequality (Chossudovsky, 1997). Critics from the stream of Marxist political economy give rise to these phenomena in the class nature of the ' Washington consensus', ie it is a set of policies promoted by the capitalist interests and further the interests of big imperialist powers. Some orthodox critics argue that the advocates of the "

Washington Consensus” treat only the so-called traditional causes of inequality (such as concentration of population in these territories, the domination of natural resources, unequal access to education, and urban bias (pricing policies, allocation of public spending and investment, etc.). For them, while such traditional factors were clearly responsible for the collection of a few high-income observed in the late 50s and 70s, and in maintaining these inequalities severely over the next two decades, they cannot (with the possible exception in some areas of educational inequality) explain the widespread increase in inequality that occurred during the twenty years of implementation of the “ Washington Consensus” policies.

Critics of the “ Washington Consensus”

Two main streams can be distinguished on the critical evaluation of the “ Washington Consensus”. The first comes from the neo-classical economic theory but also assess the negative impact of the “ Washington consensus” and also questions of the analytical framework. This stream is the argument of “ post-Washington consensus.” The second stream comes from the Marxist and radical political economy, which not only assesses the negative impact of the “ Washington consensus”, but also moving to a completely different analytical and ideological direction.

The position of “ Post-Washington Consensus” raised by Joseph Stiglitz in 1998 and is the most ambitious attempt to solve the problems of the “ Washington consensus” within the dominant economic theory. What distinguishes it from other critiques of the “ Washington consensus” based on the dominant economic theory is that it is markedly critical of the past and that is based on a diversified analytical approach – certainly within the framework of neoclassical economic theory – that of " economicinformation. For Stiglitz (1989), there is perfect information, as it assumes the dominant neoclassical view. Instead, there are asymmetries of information that allow the existence of transaction costs and market imperfections. Consequently, the definition of free market expands and the arguments about the need for state intervention in order to mitigate these strengthened. This is directly opposed to the " Washington Consensus", where the state is not considered as a corrective force. Contrasted well with the old Keynesian policies of massive government intervention. Early opposition to the Keynesian " Washington Consensus" often accept the terms of the last debate, ie put the state towards the market and favored state intervention on the basis of either incorrect price, picking winners, or guiding the private sector through public spending. Instead, the Stiglitz (199e, p. 25) can not be a return to old Keynesian policies, but the state should focus exclusively on what he calls basic principles, namely economic policies, appropriate regulation, industrial policy, social protection, basic education, health, infrastructure, law and order, protect the environment. That question is not whether the state should or should not interfere in the economy, but rather the question is how to get involved. The main argument is that the state is not power against the market but complementary market.

In this alternative analytical approach is based on the " New Economics of Development" (Nobel Prize (2001)) and " Post-Washington Consensus, emphasizing the history and institutions. Through its emphasis on the institutions trying to restore the social dimension in the analysis as a means to address and possibly correct the imperfections. They also aim to differentiate themselves from the old-style Keynesian statism.

For Stiglitz (1994, 1998a, 1998b) the “ Washington Consensus” fails because the mere liberalization of markets is not sufficient for normal function, particularly in developing countries. The existence of information asymmetries that prevent markets from efficiently allocate resources, and lack of integrated and effective institutional systems to mitigate these asymmetries are the causes of failure. Consequently, development policy must aim not only to markets but also to institutions. In this respect, “ Post-Washington Consensus” share the same agenda with its predecessor but with some crucial modifications. The removal of restrictions and controls on markets and international capital mobility, privatization should be done through an orderly and gradual process, taking into account the specific historical and social situations. An essential part of this process is the creation of new institutional regulatory frameworks that can guide, correct and control the market. In addition, more space will be given to the exercise of discretion and the exercise of active policies. Above all, Stiglitz rejects the unitary focus of the “ Washington Consensus” to fight inflation and put as priority the stabilization of production and promotion of long-term growth (through training, technology transfer and various other channels are ignored by the Washington Consensus). Finally, it emphasizes the role of the financial system (which considers the “ brain” of the economy) and argues that the goal should be a liberalized economic system but appropriately regulated and efficiently.

In this light the “ Washington Consensus” is a vehicle for the pursuit of imperialist domination by the developed capitalist economies (and primarily the U. S.) on developing and least developed countries. All these policies promote the specific interests of these economies, promoted by the so-called globalization.

Consequently, Shaikh (2004) disagrees with the view that trade and financial liberalization promotes growth, such as the “ Washington Consensus” believe. As an empirical observation, the economies that are now developed in the past have used systematically protectionist trade and active financial policies to achieve this position and, in many cases, still follow today. Also, as even supporters of orthodox economic accept (Rodrik 2001) has shown that political liberalization does not lead to higher rates of economic growth. Consequently, the pressure for liberalization favors developed countries versus developing countries by prohibiting the latter to follow the path of the former. Shaikh, also argues that these unfortunate policies come from the wrong orthodox theory of “ comparative costs” and argues that an approach based on classical theory of “ competitive advantage” is analytically and empirically superior.

Similarly, Fine (2002) criticized the “ Washington Consensus” because it deliberately neglects the critical aspects of the development process to promote the neoliberal reforms that promote the interests of dominant capitalist economies. Fine argues that “ Washington consensus” is part of the same “ imperialist” effort by the orthodox economics to colonize the fields (as the theory of economic growth), which until now remained inaccessible areas.

On policy issues, the Marxist economists argue that markets are not a factor for stability and equality, but instead are factors of instability and that free competition is increasing poverty and inequality. This is especially true for financial liberalization and international capital mobility, which – as reaffirmed by the experience of the 90s – has increased the financial instability within the country and caused the balance of payments crises. Furthermore, the increased importance of financial factors absorbs resources which could have increased output and employment and increases in non-productive manner yields of money market brokers. Finally, they argue that unbridled competition leads to the concentration and centralization of capital and thus the creation of national and international monopolies, which impose their interests on the poorest and least developed economies. Eventually, this process leads to increasing disparities between the economies, in contrast to the orthodox beliefs. In terms of domestic economy, the policies of the “ Washington Consensus” lead to a negative income distribution (for the benefit of the wealthier classes) since shed the burden of adjustment on the poorer classes and systematically erode the bargaining power of workers (through increased wage flexibility, reduce regulatory frameworks that protect labor and the declining real minimum wage). The negative income distribution is compounded even further with the privatization (which makes it costly to provide public services) and the erosion of the redistributive role of the state (through the retrograde changes in tax and cuts in public spending).

The crises:

These problems were highlighted for discussion and emphasis was given to them in the mid 90s after a series of crises in the developing world: the 1994-5 Mexican so-called “ crisis of Tequila», the Asian crisis of 1997, the so-called Russian “ vodka crisis “ of 1997-9, the Brazilian crisis of 1998 and finally the Argentinian crisis of 2000. In all these cases, the policy prescriptions of the ‘ Washington consensus’ blamed as these crises have occurred while these countries implement their policies and structural reforms. A common feature of all these cases that resulted in exchange rate crises. However, it is also true that each case had its own special characteristics.

In the first case of Mexico, the problems caused by trying to open the economy and to introduce economic liberalization. This led to the collapse of the peso and the deterioration (in terms of rating) of the Mexican debt. Mexico was the first country to sign the Flexible Credit Line of IMF, which cooperated with the USA Treasury for a loan of 30 billion given in 1995. As a result of the reforms imposed, the number of Mexicans living below poverty exceeded by 50% and the minimum wage fell by 20%. In case the Asian crisis was caused by efforts to adapt to an international environment consistent with the requirements of the “ Washington Consensus” and simultaneously to reform the internal structure of economies from the Asian development model towards the prescription of “
Consensus Washington. The crisis was again in the form of the exchange rate crisis and led to the abrupt abandonment of these reforms. The Russian case is different because it comes from the transition of a centrally planned economy to a market economy. The policy reforms through adjustment

shock, opening the economy and the growing importance of financial sector, made it vulnerable to infectious disease outcomes of the Asian crisis. This caused the collapse of the stock market, continuous devaluation of the ruble, and finally the suspension of convertibility. The Brazilian case was the attempt to introduce economic liberalization made boomerang causing the crisis. The imposition of discipline by redirecting public expenditure to other sectors and reform the tax system to the standards of the " Washington Consensus" demolished the Brazilian financial and tax revenue-raising system. This again led to an exchange rate crisis. Finally, the case of Argentina, covering all features recipes " Washington Consensus". It began with an ambitious plan to bring the budget, trade and monetary reform, and proceeded to create a currency board to maintain a fixed exchange rate of the peso against the dollar, ie the attachment of the peso to the U. S. dollar on a one to one. These reforms have created serious problems in the economy and resulted in the largest sovereign debt default in modern history.