Beyond the Washington Consensus

BY THEIR nature, the heady times of 1989 were given to hyperbole, with Francis Fukuyama declaring the "End of History." The Berlin Wall came tumbling down and communist regimes were ousted across Eastern Europe. Soviet troops pulled out of Afghanistan. Even in China, where the military abruptly suppressed a wave of protest, an astonished world watched as a solitary man stood defiantly to halt the advance of a column of tanks in Beijing's Tiananmen Square.

It was in this era of sweeping political change, when capitalism appeared triumphant and the Cold War was almost over, that economist John Williamson coined the term "Washington Consensus" to describe a set of market-oriented reforms that the sluggish state-directed economies of Latin America could adopt to attract private capital back to the region following the crippling debt crisis of the "lost decade" of the 1980s. As Williamson explains on the following pages, although this 10-point policy package was originally designed as a reform agenda for Latin America, it quickly became seen as a model for the wider developing world. It emphasized macroeconomic (particularly fiscal) discipline, a market economy, and openness to the world economy (at least with respect to trade and foreign direct investment).

The Washington Consensus helped fill the need for an economic policy framework following the discrediting of central planning and import-substitution trade strategies. As Moíses Naím pointed out in the spring 2000 issue of *Foreign Policy*, "The debt crisis of the 1980s and the end of the Cold War made it impossible for governments to sustain economic policies that were not anchored in sound macroeconomic policies or that were based on an adversarial posture toward foreign investment."

Latin American governments championed the Consensus in the early 1990s, and the policy agenda delivered some of the things it was supposed to—healthier budgets, lower inflation, lower external debt ratios, and economic growth. But unemployment rose in many countries and poverty remained widespread, while the emphasis on market openness made states vulnerable to the side effects of globalization, such as surging flows of private short-term capital that could exit a country as swiftly as they entered.

Around the world, 10 middle-income developing countries experienced major financial crises between 1994 and 1999 that damaged living standards and, in some cases, toppled governments and left millions worse off. Suddenly, policymakers were confronted by the new issue of financial contagion—the risk of a crisis spreading from one country to another—and economists questioned the pace and sequencing of deregulation and liberalization. Markets were a bane as well as a benefit, and there was a new emphasis on the need for governments to ensure that strong domestic institutions and policies were in place before opening up their economies to flighty foreign capital.

The term became a lightning rod for those disenchanted with globalization and neoliberalism or with the perceived diktats of the U.S. Treasury.

The international financial institutions were often seen as the handmaidens of the Consensus, and the term became a lightning rod for those disenchanted with globalization and neoliberalism or with the perceived diktats of the U.S. Treasury. In September 1998, Jeffrey Sachs described the Consensus in the *Economist* as "phony" and called for "a shared stewardship between rich and poor."

The reform agenda evolved into long "must do" lists for developed and developing countries alike. The need for competitive exchange rates became the need for flexible or (maybe) firmly fixed exchange rates, with treacherous waters in between. Consensus begat Consensus. The latest version—the 2002 Monterrey Consensus—has 63 action points, including not just aid and economic issues, but also governance, corruption, and human rights.

Today, there is fresh debate about the way forward and the role of the international financial institutions. Many regions, including Latin America and Africa (see pages 14–20), have their own agendas, complemented by a complex international package of development goals and trade negotiations, and Williamson is now promoting a revised blueprint that he hopes will leave behind the "stale ideological rhetoric of the 1990s." What is his new agenda called? Anything but "Washington Consensus II," he suggests. ■

Jeremy Clift