

What is at stake?

Coined by John Williamson of the Institute for International Economics in 1989, the expression “Washington Consensus” came to be understood as a set of 10 basic policies that developing countries have to follow in order to be seen as fundamentally sound. However, the Washington Consensus basically just reflected the policies that had been popularized through “Reaganomics” in the U.S.

Despite the fact that these prescriptions do not have “consensus” support among economists, it was seen in that way because leading institutions (such as the IMF, World Bank, and U.S. Treasury) included most of them in their “Structural Adjustment Programs” (SAPs). In exchange for financial aid, impoverished nations were required to adhere to these policies.

What is contentious?

The Washington Consensus has not helped weak economies to develop over the past 20 years. Rather, it promotes a “one-size-fits-all” solution that is often disconnected from the political and social realities of the countries in which it is implemented.

The Washington Consensus should be understood as the dogma of market-fundamentalism that the WTO is attempting to integrate into its current negotiations.

They say:

“The ‘Washington Consensus’ is an attention-getting way of describing classical liberal economic policy. The only country in South America where this has succeeded in meeting popular expectations is Chile. We know, therefore, that the policy can work economically and politically.”

Sidney Weintraub, Center for Strategic and International Studies, Simon Chair in Political Economy

We say:

“The doctrine known as the Washington Consensus was, after its fashion, the Apostle's Creed of globalization. It was an expression of faith, that markets are efficient, that states are unnecessary, that the poor and the rich have no conflicting interests, that things turn out for the best when left alone. It held that privatization and deregulation and open capital markets promote economic development, that governments should balance budgets and fight inflation and do almost nothing else.”

James K. Galbraith, *The Crisis of Globalization*, 1999

The Ten Elements of the Washington Consensus

1. **FISCAL DISCIPLINE:** strict criteria for limiting budget deficits;
2. **PUBLIC EXPENDITURE PRIORITIES:** away from subsidies and administration towards 'neglected fields with high economic returns and the potential to improve income distribution, such as primary health and education, and infrastructure';
3. **TAX REFORM:** broadening the tax base and cutting marginal tax rates;
4. **FINANCIAL LIBERALIZATION:** interest rates should ideally be market-determined;
5. **EXCHANGE RATES:** should be managed to induce rapid growth in non-traditional exports;
6. **TRADE LIBERALIZATION:** tariffs not quotas, and declining tariffs to around 10 per cent within 10 years;
7. **FOREIGN DIRECT INVESTMENT:** no barriers and 'equality' with domestic firms;
8. **PRIVATIZATION:** state enterprises should be privatized;
9. **DEREGULATION:** abolition of 'regulations that impede the entry of new firms or restrict competition', and establishing 'such criteria as safety, environmental protection, or prudential supervision of financial institutions' as the means to justify those which remain;
10. **PROPERTY RIGHTS:** secure rights without excessive costs and available to the informal sector.

Source: The Bretton Woods Project, www.brettonwoodsproject.org/