

**Working Paper 243**

**The Washington Consensus is dead!  
Long live the meta-narrative!**

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## **Summary**

The Washington Consensus has been replaced by a new and improved orthodoxy, called here the 'meta-narrative'. It emphasises the Millennium Development Goals (MDGs) as an over-arching framework, and lays out the link between the MDGs, nationally owned poverty reduction strategies, macro-economic policy (including trade), effective public expenditure management, and harmonised aid in support of good governance and good policies. It also recognises the concern for security and poorly performing countries, as well as the international trade and finance agenda. The current meta-narrative can be improved, by paying more attention to rights, equity and social justice, to the problems of 'infant economies', and to issues of aid policy and aid architecture. There are implications for policy and for research.



# 1. From the Washington Consensus to a new meta-narrative

On 25 May 2004, in Shanghai, James Wolfensohn, President of the World Bank, observed that ‘the Washington Consensus has been dead for years. It has been replaced by all sorts of other consensuses’.<sup>1</sup> The best-known of these is the post-Washington Consensus, copyright Joe Stiglitz,<sup>2</sup> but that, too is, not dead, but incomplete. Here, then, is an alternative: the meta-narrative. The first rule of the meta-narrative should probably be that development is particular and path-dependent, and that we should beware of meta-narratives.<sup>3</sup> Nevertheless, there are some general themes in the current conventional wisdom that cut across the range and variety of development experience.

The original formulation of the Washington Consensus, propounded in 1990 by John Williamson, was largely concerned with macro-economics and financial management. Williamson’s 1994 version is reproduced in Appendix 1. His ten points cover topics like fiscal and monetary policy, the exchange rate, trade, and the regulatory framework. They do not touch on aid issues or on developed country policy. In his original critiques, delivered in two lectures in 1998, Stiglitz expanded the coverage to include the quality of institutions underpinning markets, and also voice and partnership in the governance of states. He was also concerned with the interface between national economies and the international environment. In his 2002 book, *Globalization and its Discontents*, he developed these themes, adding the importance of safety nets to the list of topics, cautioning countries against a policy of ‘beggar thyself’ (ibid:106ff) and stressing the inter-connectedness of policies:

‘trade liberalisation accompanied by high interest rates is an almost certain recipe for job destruction and unemployment creation . . . Financial market liberalisation unaccompanied by an appropriate regulatory structure is an almost certain recipe for economic instability – and may well lead to higher, not lower interest rates, making it harder for poor farmers to buy the seeds and fertiliser that can raise them above subsistence. Privatisation, unaccompanied by competition policies and oversight to ensure that monopoly powers are not abused, can lead to higher, not lower, prices for consumers. Fiscal austerity, pursued blindly, in the wrong circumstances, can lead to high unemployment and a shredding of the social contract.’ (ibid:84)

The current meta-narrative takes this enlargement of the agenda several steps further. In so doing, it inevitably expands Williamson’s ten bullet points: to as many as twenty in Box 1. These points are taken from the current discourse in international development.<sup>4</sup> They emphasise the Millennium Development Goals as an over-arching framework, and lay out the link between the MDGs, nationally owned poverty reduction strategies, macro-economic policy (including trade), effective public expenditure management, and harmonised aid in support of good governance and good policies. However, they also recognise the concern for security and poorly performing countries, as well as the international trade and finance agenda.

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1. <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATIONAL/0,,contentMDK:20206669~menuPK:232083~pagePK:159837~piPK:159808~theSitePK:227585,00.html>
  2. Stiglitz (1998a, 1998b and 2002)
  3. North and Thomas (1973), North (1991); on the danger of meta-narratives more generally, see Harvey (1989):45; Rosenau (1992):6
  4. See especially OECD (1996), UNDP (1997), World Bank (1998, 2000); Foster (2000), DAC (2001); DFID (1997, 2000); Christiansen (2003). Also references in Wood 2004, especially (on institutions) Rodrik et al (2002), Easterly and Levine (2002).

**Box 1: The meta-narrative (actual)**

- 1 The Millennium Development Goals provide the framework for thinking and action on international development.
- 2 But security aspects are also important and there is special concern with poorly performing and failed and failing states.
- 3 The key MDG is to reduce poverty by half by 2015. 'Poverty' has many aspects but is most easily measured by income, using the dollar a day measure.
- 4 Growth is the most important and maybe the easiest driver of poverty reduction.
- 5 Improving health and education helps meet the MDGs, but also boosts growth and poverty reduction.
- 6 Trade is an engine of growth and poverty reduction: economies need to be open.
- 7 In general, too, market economies deliver faster growth and poverty reduction.
- 8 Infrastructure for productive sectors, water, health and education are the priorities for public expenditure.
- 9 Public monies are most likely to be corruption free and well-spent when public institutions are results-driven, accountable and decentralised.
- 10 PRSPs provide a way to focus both poverty policy and participation.
- 11 Good government and good policies are necessary conditions for both growth and successful use of development aid.
- 12 For countries which do not qualify, humanitarian assistance will be best, backed up with security interventions in the case of the worst performers.
- 13 More aid is certainly justified – at least to double present levels.
- 14 Some of this should be spent on debt relief.
- 15 Global Funds and other special instruments help to leverage additional aid.
- 16 And also focus aid on critical problems like famine, HIV/AIDS, or education for all
- 17 But in general, additional aid is best delivered through the multilateral system, especially the World Bank
- 18 And wherever possible should support national budgets rather than individual projects
- 19 Subject to the condition that countries continue to use it well
- 20 Meanwhile, rich countries need to reduce subsidies and provide better trade access

## 2. Can the meta-narrative be improved?

The statement in Box 1 represents a compromise between the Washington and post-Washington Consensus positions: generally in favour of openness and market-oriented approaches, but with an emphasis on institutions and human capital. However, it is not unproblematic. There is research evidence to qualify or question a number of statements, summarised in Box 2. There are three main sets of points.

First, the MDGs provide a powerful and politically attractive frame within which to approach international development, but they are incomplete. This is because they only partially represent the vision of the document from which they are extracted, the Millennium Declaration adopted by the UN in 2000 (UN 2000). In addition to the MDGs, the Declaration includes a statement of values, and a commitment to peace, security and the rule of law. The additional material widens and internationalises the frame. For example, it provides the basis for saying that there is more to poverty than lack of income: rights, equity and social justice also matter, for intrinsic as well as instrumental reasons.<sup>5</sup>

Second, there is evidence that the story about how to get to poverty reduction, equity and social justice is more nuanced than the current meta-narrative suggests. This is partly a reflection of the point made above, that development trajectories are path-dependent and country specific (World Bank 2004); but also of the latest thinking on the importance of institutions, geography and history, and the interactions between these three.<sup>6</sup> As Wood remarks:

‘The claim of some scholars that only institutions matter for growth, and that openness is of little consequence, is probably an overstatement, but new research alters the balance of the arguments . . . I would now place relatively more emphasis on governance-related determinants of the ‘investment climate’ within countries. (Wood 2004).

A crude characterisation of the current approach is to encourage internal and external liberalisation, and simultaneously to invest in health, education and good governance, so that people are able to take advantage of new economic opportunities. Stiglitz has not been the only one to worry that supply side constraints and high levels of vulnerability make this ‘big bang’ strategy both difficult and risky.<sup>7</sup> The new British Government White Paper on trade and investment illustrates a new approach in one of its key themes: ‘same destination, different speeds’ (DTI 2004). It is interesting to think about the poorest countries as ‘infant economies’, rather like the ‘infant industries’ much discussed in the trade and industry literature. There are lessons about the difficulty of nurturing infant industries, especially with regard to the dangers of blanket protection, that can usefully be applied to infant economies (c.f. Lall 2003, 2004).

Third, there are issues about how well the current approach guides international support to the development process. The approach involves channelling more aid to well-governed countries with good policies, using the MDGs as an objective, PRSPs as both a guide to policy and an indicator of ownership, better public expenditure as the main instrument, and budget support as the main vehicle for aid. This approach is contested on its own ground, for example on the impact of aid in

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5. UNDP (1990, 2000), DAC (2001), Moser and Norton (2001), Gaventa et al (2003), Maxwell (2003)

6. See e.g. Landes (1998), Chang (2003), Diamond (2004), DTI (2004)

7. See e.g. Chang (2002) on protectionist tendencies among early industrialisers, and Chang (2003) on the role of institutions in historical perspective

countries which fail to meet the test of good policies,<sup>8</sup> and on the value and feasibility of results-based approaches based on administrative targets.<sup>9</sup> However, it faces especially big problems in dealing with failed states and poorly performing countries.<sup>10</sup> Here, there has been a tendency to rely on humanitarian aid, challenging in the process the impartiality and neutrality which need to characterise this resource, and complicating the relationship between aid and military interventions.<sup>11</sup> There are also issues about what ‘partnership’ might mean in international development, especially in terms of the accountability of developed countries for policies on trade, aid, finance and security which have an impact on developing countries (Maxwell and Riddell 1998, Maxwell and Conway 2002). Finally, there are issues about the effectiveness and efficiency of the current aid architecture (Rogerson 2004).

<b>Box 2: What are the problems?</b>		
1	The Millennium Development Goals provide the framework for thinking and action on international development.	The MDGs are incomplete. The Millennium Declaration, from which they are taken, includes the MDGs, but also a commitment to a set of core values (including freedom, equality and solidarity) and to peace and security (including respect for the rule of law). <sup>12</sup>
2	But security aspects are also important and there is special concern with poorly performing and failed and failing states.	Beware: security concerns may swamp development and humanitarian concerns, esp in the EU and the US. <sup>13</sup>
3	The key MDG is to reduce poverty by half by 2015. ‘Poverty’ has many aspects but is most easily measured by income, using the dollar a day measure.	Poverty reduction is good, but social inclusion is better, giving greater weight to participation, citizenship, voice and justice. <sup>14</sup>
4	Growth is the most important and maybe the easiest driver of poverty reduction.	Yes, but don’t forget that small improvements in the distribution of assets and income can have an even greater impact than even pro-poor growth. <sup>15</sup>
5	Improving health and education helps meet the MDGs, but also boosts growth and poverty reduction.	Yes, but there has been too much focus on these sectors in PRSPs and public expenditure plans, at the expense of productive sectors (including rural development) and social protection. <sup>16</sup>
6	Trade is an engine of growth and poverty reduction: economies need to be open.	Trade liberalisation has many losers, who need to be helped through the adjustment process; and the benefits also pass some people by. FDI goes only to few countries. <sup>17</sup>
7	In general, too, market economies deliver faster growth and poverty reduction.	Yes, but remember the key lesson of the post-Washington Consensus, that market institutions need to be in place before liberalisation takes place – too often, markets are missing or imperfect, especially in rural areas. <sup>18</sup>
8	Infrastructure for productive sectors, water, health and education are the priorities for public expenditure.	Social protection is a vital, missing element – tackling food insecurity and malnutrition is at the heart of this. <sup>19</sup>
9	Public monies are most likely to be corruption free and well-spent when public institutions are results-driven, accountable and decentralised.	Yes, but developed country experience clearly shows the limits of target-driven approaches. <sup>20</sup> Other strategies are also necessary, including introducing choice and exit options in public services. <sup>21</sup> Effective decentralisation is also very difficult. <sup>22</sup>
10	PRSPs provide a way to focus both poverty policy and participation.	PRSPs have been much better on process than content. There is a huge gamble that better process will deliver better politics and better content in the long run – but in the long run, to quote Keynes, we are all dead. <sup>23</sup>

11	Good government and good policies are necessary conditions for both growth and successful use of development aid.	The evidence does not support the conclusion that aid works only when policies are ‘good’. Aid needs to be used strategically to reach poor people and leverage change in all countries. <sup>24</sup>
12	For countries which do not qualify, humanitarian assistance will be best, backed up with security interventions in the case of the worst performers.	There are better ways to engage in poorly performing countries, using humanitarian assistance and security support, but also looking for ways to help countries establish upward trajectories. New aid instruments are needed to reach the poor in weak or contested states.
13	More aid is certainly justified – at least to double present levels.	Yes, but the Zedillo estimates were only rough: 0.7% remains a better guide. <sup>25</sup>
14	Some of this should be spent on debt relief.	Yes, with the proviso that the total cake is limited and that resources should be concentrated in places with the greatest return. <sup>26</sup>
15	Global Funds and other special instruments help to leverage additional aid.	There is no evidence for this. It would be better not to earmark and subdivide aid budgets.
16	And also focus aid on critical problems like famine, HIV/AIDS, or education for all	The evidence is rather that special funds can distort spending priorities and disrupt budget processes in developing countries. <sup>27</sup>
17	But in general, additional aid is best delivered through the multilateral system, especially the World Bank	The governance of the BWI is a major problem and should inhibit this strategy. Instead, some of the money should be used to accelerate change in the UN, including on the humanitarian side. Beyond that, more competition in the aid system is desirable (but probably involving fewer, bigger players). <sup>28</sup>
18	And wherever possible should support national budgets rather than individual projects	Yes. General Budget Support should be encouraged. <sup>29</sup>
19	Subject to the condition that countries continue to use it well	Yes, but improving partnerships mean that there need to be explicit procedures for vetting performance and holding both parties to account, not simply allowing donors to impose conditions. <sup>30</sup>
20	Meanwhile, rich countries need to reduce subsidies and provide better trade access	Yes, and rich countries need to be held to account – but developing countries also need to lift trade barriers.

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8. Hansen and Tarp (2000)

9. Chapman (2002), O’Neill (2002), Maxwell (2003):12-13

10. DAC (2001), World Bank (2002), Macrae et al (2004)

11. Macrae et al (2002), Macrae and Harmer (eds) (2003), Macrae et al (ibid)

12. UN (2000), Black and White (2004)

13. Solana (2003), Macrae and Harmer (eds) (2003), Grimm (2004)

14. See footnote 5

15. White (2001); Cornia (2004)

16. Williamson and Canagarajah (2003); Maxwell (2003)

17. McCulloch et al, DTI (2004):63ff

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18. Kydd and Dorward (2003)

19. Conway and Norton (2002), Gillespie et al (2003)

20. Rose (2003)

21. See [http://www.odi.org.uk/speeches/public\\_service\\_delivery\\_2004/index.html](http://www.odi.org.uk/speeches/public_service_delivery_2004/index.html)

22. Johnson (2001)

23. Booth (ed) (2003)

24. Tarp (ed) (2000)

25. Zedillo report – UN (2001)

26. Killick (2004a)

27. Smith (2004)

28. Rogerson (2004)

29. DFID (2004), Lawson and Booth (2004)

30. Killick (2004b)

Box 3 attempts to respond to the problems with the current meta-narrative by suggesting an improved version. This is not a statement of current policy, but could become one. There are similarities with current policy, but also some sharp differences. Following this strategy would entail:

- Clear delineation of independent development, humanitarian and security policies;
- A strong focus on social exclusion and human rights, to set alongside the commitment to poverty reduction;
- International support for an economic policy of ‘same destination, different speeds’, including risk protection;
- More attention to the productive sectors in PRSPs;
- But also more attention to social protection, perhaps especially a focus on under-nutrition;
- New initiatives and new forms of engagement with poorly performing countries;
- Reform of the international aid architecture; and
- New rules and institutions to ensure the accountability of rich countries to poor ones.

<b>Box 3: The meta-narrative (revised)</b>	
1	The Millennium Declaration provides the framework for thinking and action on international development, beginning with core values like freedom, equality and solidarity, and covering peace and security as well as development and poverty reduction.
2	Each of these contributes to the others, and none should be pursued at the expense of the others. Security does need attention, but development and humanitarian money should not be ‘raided’ for that purpose.
3	Social exclusion is both a cause and a manifestation of poverty. That is why action to tackle discrimination and guarantee all forms of rights needs to sit side by side with action to increase income.
4	That is also why growth, even pro-poor growth, needs to be complemented by measures to reduce asset and income inequality – equity has an instrumental logic (redistribution can make growth easier and poverty reduction faster) but also has intrinsic value in a fair global society.
5	Improving health and education contributes to the progressive achievement of economic and social rights as well as to long term reduction of poverty, but needs to be balanced against investment in productive sectors, especially those (like rural development ) which benefit the poor. An imbalance in public expenditure needs to be rectified.
6	Considered in aggregate, developing countries, and the poor within them, can only gain from a long term increase in trade, especially in manufactures and services. However, they should absolutely not be exposed to sudden liberalisation without substantial investment in capacity to supply and, equally important, a guaranteed safety net against falling prices and import surges. Adjustment assistance needs greatly to be increased.
7	By the same token, market liberalisation within countries will deliver faster growth and poverty reduction, provided markets exist and market institutions are in place. Where these conditions are not met, prior investments are needed and liberalisation should be phased.
8	Social protection – safeguarding health, nutrition and livelihood - needs to be at the heart of poverty reduction strategies. It is right that no country committed to universal primary education should be debarred from providing it by lack of resources. The same should apply to any country committed to eliminating hunger and malnutrition.
9	Poor countries need well performing public institutions, low levels of corruption and high quality service delivery. There are no simple solutions – certainly not simple targets – but a combination of results-based approaches, local engagement, and, in some cases, the extension of choice, will do the trick.
10	Poverty Reduction Strategies provide a good vehicle for concentrating the minds of developing country governments and their people, as well as donors – and should be judged both by their content and by the quality of the political process they engender. For example, they should not neglect productive sectors or cross-cutting issues like rural development.

- 11 Aid is essential to the rapid reduction of poverty, especially in the poorest countries. The key decision is not about where to target aid – it should always seek out the poor – but rather about how to deploy aid in different kinds of environment, including the war-torn and in failed states.
- 12 In failed states and poorly performing countries, development, relief and security assistance need to find ways to work together, whilst still respecting the principles of humanitarian intervention, especially impartiality and neutrality. The most difficult countries to work in need renewed political commitment and multiple and carefully coordinated interventions.
- 13 The Monterrey commitment to increased aid is a good starting point, but further commitments will be needed. All developed countries should commit to a specific date for reaching 0.7%.
- 14 Debt relief is appropriate in some countries, but should not be at the expense of aid to other poor countries, some of which have managed to keep debt low. The focus needs to be more on the total volume of resources reaching poor countries, less on the modality of distribution.
- 15 Setting up global and other special funds does little to increase the total volume of aid. They therefore have little value-added.
- 16 Furthermore, they distort expenditure, make national ownership of budgets more difficult, and increase the transactions costs of providing development assistance. Earmarking is wrong, and global and other special funds make it worse.
- 17 Transactions costs would be greatly reduced (and the Rome principles on harmonisation made much easier to achieve) if there were fewer bilateral donors and if more money was channelled through multilateral agencies. However, governance reform should be a pre-condition of any more money going to the World Bank; and, in any case, the UN should take a greater share in order to encourage competition in the system.
- 18 If the budget processes of developing country governments are to predominate, and if those governments are to be accountable to their electorates, most, if not all aid should eventually be delivered through budget support.
- 19 Donor countries need to strengthen their partnerships with developing countries, and in a way which encourages predictability, mutual accountability and reciprocal obligations (for example on aid volume).
- 20 Rich countries should set more demanding targets for market access and the reduction of subsidy distortions; and developing countries should also phase in the liberalisation of trade between themselves.

### 3. Implications for policy and research

In pursuit of the revised meta-narrative, there are actions that need to be taken by different groups of countries. Thus, the G8/OECD should:

- Broaden the MDG discourse to include other aspects of the Millennium Declaration
- Commit to 0.7% by a specified date
- Create a large new development trust fund to leverage UN reform, under the leadership of Kofi Annan
- Greatly strengthen the analysis of content of PRSPs, for example to check that productive sectors and social protection are adequately covered
- Agree a normative international target for income inequality
- Review the aid architecture with a view to simplifying and reducing the number of agencies and clarifying their mandates
- Tackle the governance of the Bretton Woods Institutions
- Avoid global funds; reduce their number where possible
- Create joint political institutions, on the model of the EU-ACP
- Introduce more robust procedures for donor accountability, with independent monitoring and procedures for arbitration (cf EU-ACP)
- Endorse the International Finance Facility subject to governance arrangements

In addition, the EU should

- Ensure that the development Commissioner is responsible for all aid, including both policy and implementation
- Ring-fence money for developing countries
- Invite non-ACP members to participate in EU-ACP institutions, as observers, as a first step to unifying political relationships with all regions
- Strengthen partnership arrangements by making more use of joint peer review and the formal recourse and arbitration procedures

Finally, the research agenda is by no means exhausted. There are many possible topics, related to the three areas of challenge to the current meta-narrative: social inclusion, development trajectories, and aid.

## **Appendix: The Washington Consensus**

### **1. Fiscal Discipline**

Budget deficits, properly measured to include those of provincial governments, state enterprises, and the central bank, should be small enough to be financed without recourse to the inflation tax. This typically implies a primary surplus (i.e., before adding debt service to expenditure) of several percent of GDP, and an operational deficit (i.e., disregarding that part of the interest bill that simply compensates for inflation) of no more than about 2 percent of GDP.

### **2. Public Expenditure Priorities**

Policy reform consists in redirecting expenditure from politically sensitive areas, which typically receive more resource than their economic return can justify, such as administration, defence, indiscriminate subsidies, and white elephants, toward neglected fields with high economic returns and the potential to improve income distribution, such as primary health and education, and infrastructure.

### **3. Tax Reform**

Tax reform involves broadening the tax base and cutting marginal tax rates. The aim is to sharpen incentives and improve horizontal equity without lowering realised progressivity. Improved tax administration (including subjecting interest income on assets held abroad – flight capital – to taxation) is an important aspect of broadening the base in the Latin context.

### **4. Financial Liberalisation**

The ultimate objective of financial liberalisation is market-determined interest rates, but experience has shown that, under conditions of a chronic lack of confidence, market-determined rates can be so high as to threaten the financial solvency of productive enterprises and government. Under that circumstance a sensible interim objective is the abolition of preferential interest rates for privileged borrowers and achievement of a moderately positive real interest rate.

### **5. Exchange Rates**

Countries need a unified (at least for trade transactions) exchange rate set at a level sufficiently competitive to induce a rapid growth in non-traditional exports, and managed so as to assure exporters that this competitiveness will be maintained in the future.

### **6. Trade Liberalisation**

Quantitative trade restrictions should be rapidly replaced by tariffs, and these should be progressively reduced until a uniform low tariff in the range of 10 percent (or at most around 20 percent) is achieved. There is, however, some disagreement about the speed with which tariffs should be reduced (with recommendations falling in a band between 3 and 10 years), and about whether it is advisable to slow down the process of liberalisation when macroeconomic conditions are adverse (recession and payments deficit).

### **7. Foreign Direct Investment**

Barriers impeding the entry of foreign firms should be abolished; foreign and domestic firms should be allowed to compete on equal terms.

### **8. Privatisation**

State enterprises should be privatised.

### **9. Deregulation**

Governments should abolish regulations that impede the entry of new firms or restrict competition,

and ensure that all regulations are justified by such criteria as safety, environmental protection, or prudential supervision of financial institutions.

### **10. Property Rights**

The legal system should provide secure property rights without excessive costs, and make these available to the informal sector.

Source: Williamson (ed) 1994

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