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Sarah Babb

Department of Sociology, Boston College, Boston, MA, United States
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The Washington Consensus as transnational policy paradigm: Its origins, trajectory and likely successor

Sarah Babb
Department of Sociology, Boston College, Boston, MA, United States

ABSTRACT
This paper explores the origins and trajectory of the Washington Consensus – the ideas associated with the developing countries’ move to free markets in the 1980s and 1990s. I argue that the Consensus was a transnational policy paradigm, shaped by both scholarly and political forces (Hall, 1993). At the core of the Consensus was the international financial institutions’ practice of conditionality – making loans to governments in exchange for policy reforms. The Consensus was subsequently weakened by its own unintended consequences, by political forces both within Washington and worldwide and by intellectual changes in the field of economics. However, I argue that the Consensus has yet to encounter any serious rivals.

KEYWORDS
Washington Consensus; international financial institutions; World Bank; International Monetary Fund; BRICS; conditionality; policy paradigm.

Twenty years ago, the Washington Consensus was both widely blamed and widely commended for its role in the market revolution that was sweeping across the developing world. Under its influence, developing countries’ governments privatized state-owned industries, removed trade barriers and generally moved towards decreased reliance on state intervention in their economies (Williamson, 1990a, 1990b; Williamson, 1994). Today, however, a group of powerful emerging-market governments, organized within the Inter-governmental Group of 20 (G-20) and sometimes associated with the so-called BRICs countries (Brazil, Russia, India, China and South Africa), are endorsing more interventionist visions of how to empower developing economies. As Deutsche Bank analyst Markus Jaeger...
observed at the end of 2010, ‘[T]here is no denying that the “Beijing consensus” and its cousins in Brasilia, Moscow and New Delhi have thrown down the gauntlet to the . . . “Washington consensus”’ (Jaeger, 2010: 2).

What happened to the once-powerful Washington Consensus – and what seems to be taking its place? This article seeks to answer these questions through a historical excavation of the origins, nature and trajectory of the Washington Consensus. It draws on secondary literature on the Consensus and related topics, as well as some of my own research on the International Monetary Fund (IMF) and US policy toward the World Bank and regional development banks. It is broadly inspired by interdisciplinary literature on the role of ideas in policy (Hall, 1989, 1993; Weir and Skocpol, 1985; Blyth, 2002; Lindvall, 2009) and the institutionalist tradition in organizational sociology (Gouldner, 1954; Selznick, 1949; DiMaggio and Powell, 1983; Meyer and Rowan, 1977).

The economists who have commented on the evolution of the Washington Consensus have treated it as an intellectual product, responding primarily to empirical evidence and trends in scholarship (Naim, 2000; Kuczynski and Williamson, 2003; Rodrik, 2006, 2007; Stein, 2008; Stiglitz, 2002, 2008). In contrast, I argue that the Washington Consensus was a transnational policy paradigm produced by both intellectual and political forces (Hall, 1993). It was legitimated through economics scholarship, but was also embedded in the practices of two types of bureaucratic organizations: the national governments that adopted the policy reforms and the international financial institutions (IFIs) that encouraged their adoption.

This article focuses on the Washington Consensus paradigm as it was adopted by IFIs. At its core was the practice of ‘conditionality’ – making loans to governments in exchange for policy reforms. This practice helped diffuse the Washington Consensus around the world, but also unintentionally hastened the weakening of the paradigm. Recent shifts in the international balance of power and within the field of economics have further weakened the Consensus, but it has yet to encounter any serious rivals. The case of the Washington Consensus suggests that policy paradigms have different dynamics in different types of institutional settings.

THE WASHINGTON CONSENSUS AS A TRANSNATIONAL POLICY PARADIGM

At the end of the 1980s, a participant at a conference on the Latin American debt crisis observed that economists and policymakers in and around Washington, DC, had converged on a common set of prescriptions for developing countries. The observer was John Williamson, a Washington think-tank economist, and he outlined the 10 policies upon which there was the most agreement. ‘The economic policies that Washington urges on the rest of the world,’ he wrote, ‘may be summarized as prudent
What exactly was the Washington Consensus? Economists who have analysed the Consensus, whether in a critical or supportive way, have tended to treat it as a set of economic ideas. For Williamson and many others, the Consensus responded to economists’ rejection of heterodox development theories – founded in accumulated evidence of failed statist policies (Williamson, 1990a, 1990b, 1994). A more critical view was later expressed by Joseph Stiglitz, who famously argued that it constituted a kind of ‘market fundamentalism’ – a dogmatic, literal interpretation of the principles of classical and neoclassical economics (Stiglitz, 2002, 2008). To this critique, Williamson retorted that none of the policies listed in his original article was particularly radical or controversial among economists – it was a capitalist programme, to be sure, but hardly a revolutionary one (Williamson, 2003: 11). Stiglitz (2002, 2008) and others criticized the Consensus for its ‘boilerplate’ approach to development policy that ignored national peculiarities in its haste to apply universalistic recipes. Williamson’s original list, however, was painted in the broadest strokes and was relatively agnostic about more specific institutional arrangements (Rodrik, 2006: 974).

Whether they supported the Consensus or deplored it, the economists who commented on it shared the assumption that it was primarily an intellectual product, created mainly by economic experts interpreting empirical evidence. What tended to get lost in these discussions were the political dimensions of a consensus that was, after all, named after the US capital. The ‘Washington’ of the Consensus, as it was originally defined, included the top decision-makers at the IMF, the World Bank, the Inter-American Development Bank, the US Executive, and ‘those members of Congress who take an interest in Latin America, and the think tanks concerned with economic policy’ (Williamson, 1990a: 1). This heterogeneous array of technocratic and political supporters suggests that the Consensus was a very different sort of product from the academic theories that get taught in seminar rooms at Harvard and Chicago. Instead, it resembles what Peter Hall (1993) has referred to as a ‘policy paradigm’.

For Hall, a policy paradigm is a powerful and enduring framework of related ideas and standards about policy – a model that specifies both the instruments that should be used in a policy area and the goals that the policy should be addressing (Hall, 1993: 279). Policy paradigms grow out of processes of ‘social learning’ and, hence, cannot be identified directly with group interests or political ideologies. They resemble the Kuhnian original in two main respects. First, like scientific paradigms, policy paradigms are relatively durable and resistant to disconfirmation. This is partly because they are legitimated with reference to expert knowledge, such as academic economics. Trends in academics influence which policy paradigms come
to power, as is illustrated exceptionally well by the worldwide rise of Keynesian economic policy after World War II (Hall, 1989). The need to be in consonance with accepted academic wisdom keeps policy paradigms from changing in tandem with more ephemeral political trends. Policy paradigms also get institutionalized in a set of taken-for-granted assumptions and routine practices within state bureaucracies, which insulate them from pressures to change (Weir and Skocpol, 1985). Second, like Kuhn’s scientific paradigms, policy paradigms adapt to disconfirming evidence, which may ultimately lead to a paradigm’s demise and replacement by a new paradigm – a dynamic Hall illustrates with the transition from Keynesian to monetarist macroeconomic policymaking in Great Britain in the 1970s (Hall, 1993).

Policy paradigms are inspired by – and derive legitimacy from – scholarship, and may even come to be associated with the thinking of particular scholars, such as John Maynard Keynes. However, policy paradigms also differ from academic theories in some important ways that have not been fully explored in the literature on ideas and institutions. First, unlike scholarly ideas, policy paradigms are embedded in the practices of bureaucratic organizations – most obviously states, but also other organizations, such as corporations (Hall, 1993: 279; Fligstein, 1990). This institutional location undoubtedly makes policy paradigms less nuanced than scholarly theories, since they are aimed primarily at informing organizational practice (Hall, 1989: 7). It also gives paradigms a coercive power that is entirely absent from scholarly theories. A monetarist at the University of Chicago can make an impact on academic debates, but a central bank operating under monetarist assumptions affects the lives of millions of individuals, whether they like it or not. Because their organizational location insulates them from external pressures, policy paradigms may for a time even defy reigning scholarly wisdoms – for example, Hall (1993) reports that monetarism came to power in the British government at a time when the majority of British economists were still Keynesians.

Finally, although policy paradigms are both inspired and legitimated by scholarly theories, they are also shaped by politics. Policy paradigms are what Bourdieuian sociologist Thomas Medvetz (forthcoming) refers to as ‘hybrid’ products, straddling both political and scholarly fields. This is possible, in part, because policy paradigms draw on social scientific knowledge. Compared to natural sciences such as biology and chemistry, social scientists have much deeper theoretical and methodological disagreements; they do not share common paradigms in the original Kuhnian sense (Blaug, 1975).

Disagreements among social scientific experts make it possible for political actors to selectively endorse those experts whose views are most commensurate with their own platforms (Prasad, 2006). Yet, not all expert opinions become policy paradigms. Whether a group of political actors
and their chosen experts are allowed to take over the state machinery and institutionalize a new paradigm is determined through political dynamics: ‘The movement from one paradigm to another will ultimately entail a set of judgments that is more political in tone’, and this involves changes in the locus of both expert and political authority (Hall, 1993: 280; Lindvall, 2009). In Hall’s British case, it was democratic, electoral politics that led to the transition. However, it is worth noting that non-democratic political processes can also cause the rise and fall of national policy paradigms, the role of the Chicago Boys in the Pinochet dictatorship being an obvious example (Valdes, 1995).

The extraordinary range of the Washington Consensus suggests that, sometimes, policy paradigms may achieve transnational status. I define a transnational policy paradigm as a policy model specifying both a set of instruments and a set of goals to be pursued using these instruments, which is legitimated through expert knowledge and which is adopted by two or more governments. Transnational policy paradigms, like their domestic counterparts, derive legitimacy from expert knowledge, such as international economics scholarship. Like domestic paradigms, they are also embedded in the practices of organizations with coercive authority, such as national governments, which gives them relative durability and insulation from disconfirmation.

To understand how policy paradigms spread across national borders, it is useful to turn to institutionalist theories in organizational sociology. Institutionalisitsts argue that organizations – including states, private firms and international organizations – have interests of their own, but are also constrained by their environments. When many organizations of the same type, such as states, begin to adopt the same features, institutionalists expect that they are responding to common environmental pressures (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Meyer et al., 1997). Where the transnational spread of policy paradigms is concerned, there are two sources of pressure that seem particularly relevant: the first is normative and the second, coercive.

First, policy paradigms may spread across states through normative means –because they draw on transnationally legitimate ideas. Reliance on science and other forms of expert knowledge is among the most powerful norms in modern societies (Scott and Meyer, 1994; Boli and Thomas, 1997). Because scientific knowledge has widespread legitimacy, political actors use the endorsement of experts as a resource in contests for power. Trends within social scientific disciplines can, therefore, affect the outcome of political contests in ways that favour the defeat of one paradigm and the victory of another. For example, in the 1970s and 1980s, conservative politicians in many wealthy industrialized countries were able to capitalize on the rise of market-friendly economic ideas, such as monetarism and supply-side economics, to their own political advantage (Blyth, 2002). Such trends can
have an international impact because the standards governing expertise have become increasingly transnationalized. For example, the discipline of economics has experienced two parallel developments over the past half-century: increased internationalization and mathematization, with growing recognition of the leadership of American universities and standards of expertise (Fourcade, 2009) and the rise of US-trained economists at the highest level of developing-country governments (Markoff and Montecinos, 1993; Williamson, 1994; Babb, 2001).

It is easy to see why trends in American economics could have facilitated the spread of a more market-friendly policy paradigm across the developing world beginning in the 1980s. During the post-World War II decades, many developing countries adopted interventionist economic policies, such as state ownership of strategic industries and import-substituting industrialization. As Hirschman (1981) has argued, Keynesian thought opened the intellectual space within which these heterodox, developmentalist ideas could flourish.

As the mainstream of the economics discipline moved back towards core neoclassical principles in the 1970s, developmentalist policies became more difficult to justify (Hirschman, 1981; Krugman, 2006). This contributed both to a ‘more generally jaundiced view of the effects of government policy interventions’ and to the ‘triumph of neoclassical economics in the developing world’ (Killick, 1989: 12; Bierstecker, 1992). As Williamson (1994: 565) observed during the heyday of the Washington Consensus, ‘[T]he importance of intellectual influence from abroad can hardly be doubted. The intellectual climate has changed profoundly in the last decade in favor of stability-oriented, market-oriented, and outward-oriented policies.’ Faced with disconfirming evidence of various sorts – problems with external debt, balance of payments, inflation and so on – policy actors turned to the advice of experts increasingly steeped in American economics, many of whom actually had PhDs from American universities (Williamson, 1994; Domínguez, 1997). These experts served as a political resource for politicians seeking power and as a technical resource for incumbent governments. In many cases, they became top-level officials, sometimes even heads of state, where they oversaw the implementation of a new policy paradigm (Babb, 2001; Montecinos and Markoff, 2009).

However, in addition to normative pressures from the economics profession, there is at least one additional mechanism for the transnational diffusion of policy paradigms: coercive pressures from powerful organizations. ‘Coercive isomorphism’ is a term used by organizational sociologists to describe one reason why organizations tend to adopt similar structures and policies – because other, more powerful organizations are rewarding adoption (and punishing non-adoption) through various means, including the selective channelling of resources (DiMaggio and Powell, 1983;
Pfeffer and Salancik, 1977). Although the term, ‘coercion’, may bring to mind an image of physical force, here it is used to refer to a broader range of mechanisms that may be set in motion wherever one organization possesses more power than another. Such power asymmetries can foster the global diffusion of policy models through various channels. As Simmons, Dobbin and Garrett (2008: 10) put it, ‘Coercion can be applied in various ways from the subtle to the overt: through the threat or use of physical force, the manipulation of economic costs and benefits, and even through the monopolization of information or expertise.’

The coercive pressures most clearly implicated in the diffusion of the Washington Consensus came from the IFIs, a category of international organizations that specializes in lending – or sometimes granting – money to national governments, most especially in the developing world. Like other international organizations, IFIs play an important role in the transnational transmission of the policy norms noted above; they are predominantly staffed by economists, generate ideas about policy and disseminate these around the world through such vehicles as the World Bank’s World Development Report (Barnett and Finnemore, 2004; Chwieroth, 2010). Yet, IFIs also stand out from other international organizations (e.g., the United Nations) in their ability to provide material incentives for states to pursue particular policies – channelling resources selectively to states that follow their rules and withholding resources from states that do not. The two most influential IFIs, the World Bank and the IMF, are both located in Washington, DC, and the term, ‘Washington Consensus’, was originally coined to help make sense of the IFIs’ practice of conditionality – lending in exchange for changes in policy. As Williamson put it, ‘No statement about how to deal with the debt crisis in Latin America would be complete without a call for the debtors to fulfill their part of the proposed bargain by “setting their houses in order,” “undertaking policy reforms,” or “submitting to strong conditionality.” The question posed in this paper is what such phrases mean, and especially what they are generally interpreted to mean in Washington’ (1990b: 7).

Where powerful transnational organizations, such as IFIs, play a role in the diffusion of paradigms, these paradigms operate on two separate levels. At the national level, the paradigms are brought to power through the domestic political processes that institutionalize particular goals and policy practices within government bureaucracies. Yet, influencing the outcome of these domestic processes are organizations with transnational power and with paradigms of their own, which shape governments’ behaviour. We would expect the policy paradigms of these organizations, in turn, to emerge from a process analogous to the one leading to the adoption of national policy paradigms – one including both political contests and scholarly legitimation.
THE RISE OF THE WASHINGTON CONSENSUS

The Washington Consensus paradigm became institutionalized in IFIs during the 1980s and specified both a goal and a policy instrument to achieve that goal. The goal was market-liberalizing reform in developing countries; the policy instrument was collaborative conditional lending by the IFIs. It was made possible by trends in the academy, but was also forged through a political process – not through the electoral process observed by Hall (1993), but, rather, through IFI shareholder politics.

Like all organizations, IFIs adapt to their environments. On the one hand, they are influenced by expert knowledge because they derive legitimacy from their reputations as purveyors of neutral, technocratic expertise and are predominantly staffed by economists (Chwieroth, 2010; Barnett and Finnemore, 2004). However, they also respond to pressures from the wealthy industrialized countries that control their boards of directors. They respond most especially to the US, which has a range of formal and informal mechanisms of influence, including its uniquely strong bargaining position in shareholder negotiations over replenishing or augmenting the IFIs’ financial resources. Consequently, any major policy initiative in the IFIs must have US support, and the US is uniquely positioned to lead such initiatives (Gwin, 1997; Woods, 2006; Buira, 2005; Babb, 2009).

The origin of the Washington Consensus was a highly influential US government plan for managing the Third World debt crisis in the middle of the 1980s. The Baker Plan proposed a novel role for the World Bank and the Inter-American Development Bank. In Baker’s words, the plan used conditional IFI loans as a vehicle to promote ‘growth-enhancing’ policy reforms, including ‘the privatization of burdensome and inefficient public enterprises, the liberalization of domestic capital markets, tax reform, the creation of more favorable environments for foreign investment, and trade liberalization’ (Baker’s testimony in US House, 1986: 595–6).

At the core of the Baker plan was an idea that had been developed within the World Bank less than a decade earlier. Traditionally, the World Bank (and the regional development banks) had specialized almost exclusively in offering loans for tangible projects, such as bridges, highways and dams. In the late 1970s, global economic turbulence was dampening the demand for World Bank project loans, and US contributions to the World Bank were being held back by Congressional Republicans, who questioned whether multilateral organizations were effectively serving US interests. The Bank began to search for new ways of garnering shareholder support and generating borrower demand. Launched in 1980, the Bank’s ‘structural adjustment facility’ offered loans for balance-of-payments support, rather than projects, and in exchange for policy reforms (Kapur, Lewis and Webb, 1997: 505–9; Stein, 2008: 31). Lending for policy reform had long been practised by the IMF, but had been limited to fiscal and monetary
conditions, such as cutting deficits and reducing money supply, and were aimed narrowly at stamping out inflation and promoting currency stability (Babb, 2007). In contrast, the World Bank structural adjustment loans were aimed at changing the underlying structure of national economies to promote exports and economic growth.

For a number of years after the launching of structural adjustment, such lending remained marginal, in part because it aroused suspicion among some members of the Reagan administration and many Congressional Republicans, who often viewed the IFIs as wasteful, unreliably multilateral bureaucracies (Babb, 2009: 85–125). It was not until James Baker was appointed Treasury Secretary in the second Reagan administration that the US began to adopt a more pragmatic position.

Baker saw that structural adjustment lending could be used simultaneously to keep developing countries from defaulting on their external debts (much of which were owed to US banks), and to open up the developing countries to market forces. Rather than lending on a case-by-case basis, the World Bank and the regional development banks were told that they needed to develop ‘country strategies’ – overall plans for national economies – for all borrowers and to tailor their lending accordingly (Baker’s testimony to the US House, 1986: 595–6). The Plan also instructed the IFIs to engage in much closer collaboration, a practice sometimes called ‘cross-conditionality’.

In the decade that followed, this new mission had a palpable impact on the IFIs’ activities. The official 10 per cent limit on policy-based lending was removed from the World Bank’s Articles of Agreement, and by the late 1980s, such lending made up between 20 and 30 per cent of annual World Bank disbursements (Figure 1). The regional development banks, too, began to engage in policy-based lending and to orient that lending around country strategies. The regional banks began to collaborate as junior partners with the World Bank, and the Bank collaborated more closely with the IMF. These changes were promoted by the US and other shareholders in negotiations around donor contributions to the World Bank and regional banks (Babb, 2009: 135–43). In 1986, the IMF inaugurated a structural adjustment facility of its own and began systematically to require market-liberalizing policy reforms in addition to the macroeconomic reforms it had required for decades (Babb and Buira, 2005).

The list of policies the Baker Plan initially proposed to developing countries was squarely in line with the mainstream economic thinking of the day, as Williamson pointed out (1990a: 19). This undoubtedly both facilitated the adoption of this advice by the economist-dominated IFIs (Stein, 2008) and insulated it from criticism from the economics profession at large. However, the core of the paradigm was a set of policy goals and policy tools for the IFIs, which had nothing to do with economic scholarship. None of the theories in vogue at the time – the rational expectations
theory, public choice theory and so on – had anything to say about mobilizing international organizations to promote policy reforms. Indeed, during the early 1980s, Congressional Republicans used laissez-faire economics to argue that IFIs should be downsized and eventually eliminated – the market, not large bureaucracies, should take care of development problems (Babb, 2009: 76).

Instead, the origins of these goals and instruments were mostly political. They included, most obviously, the ascent of the economic conservatives in the leading shareholder governments – not only in the US, but also in the UK, Germany and Japan. The Washington Consensus was also made possible by a shift in thinking among US policymakers about how IFIs, particularly the World Bank and regional development banks, could be used to serve US interests – not as tools for assuring national security by providing resources to the Third World, but as guarantors of American economic interests (Babb, 2009: 89–96). Finally, the Consensus was made possible by the Third World debt crisis, which had put many – but not all – developing countries in a notably poor bargaining position with respect to both wealthy industrialized countries and IFIs, making it more likely that the lending would actually produce reforms.

**THE INFLUENCE OF THE WASHINGTON CONSENSUS**

The conditionality associated with the Washington Consensus combined the IMF’s traditional macroeconomic conditions (e.g., cutting fiscal
deficits) with more novel structural reforms (e.g., privatization). During the heyday of the Washington Consensus, conditionality was implemented through contract-like documents called ‘Letters of Intent’ (to the IMF) or ‘Letters of Development Policy’ (to the World Bank), outlining the total amount of the loan, the repayment schedule and a series of policy commitments. To ensure that borrowers did not renege on their commitments, the letters also specified payment instalments or ‘tranches’, along with scheduled reviews of the borrowers’ policies; if the borrower was found to be out of compliance, the lender had the right to suspend disbursements (Dreher, 2002; Babb and Carruthers, 2008).

The diffusion of the Washington Consensus through conditionality was uneven. Most obviously, conditionality could only change the behaviour of governments that chose to interact with the IFIs in this way – and those tended to be governments that desperately needed resources to deal with large currency devaluations and unsustainable external debts. Such governments tended to be concentrated in the Middle East and North Africa, Sub-Saharan Africa, Eastern Europe (following post-socialist transitions) and Latin America. Governments with stable currencies and without debt problems, such as those of China, Vietnam, India and South Korea (until the Asian financial crisis) had little exposure to the conditionality of the Washington Consensus. From 1986 through 2000, China had only a single IMF and a single World Bank policy-based loan; India had one IMF and four World Bank policy-based loans. In contrast, Argentina had a spectacular seven IMF and 19 World Bank policy-based loans during the same period. Interestingly, Brazil’s engagement with IFI conditionality in these years seems to have been milder than that of some Latin American nations, with only three IMF and five World Bank policy-based loans (IMF, various years; World Bank, various years).

Among the governments that did engage with conditionality, compliance depended on the respective bargaining power of the IFI and the government officials. For example, strategic allies of the US were observed to receive lighter punishments for non-compliance than less important borrowers (Stone, 2002; Dreher and Jensen, 2007). Conversely, compliance was more likely when the IFIs served as gatekeepers to the governments’ access to the resources of powerful third parties, such as portfolio investors, private banks and other international organizations. The IMF became particularly famous for playing this role and was even described as the leader of a global ‘creditors’ cartel’ (Cline, 1995: 205–8; Bird, 2001: 1857; Brune, Garrett and Kogut, 2004; Buira, 2003; Weisbrot, 2007). Many Sub-Saharan African governments became famous for entering into lending agreements, receiving initial disbursements, failing to comply and then entering into new loans all over again, eventually leading the IFIs to ‘lend into arrears’ (Easterly, 2001, 2006). One likely explanation is that such countries had little access to private capital flows to begin
with, and hence little to lose by breaking their commitments (Bird, 2001: 1853).

Another factor influencing the effectiveness of IFI conditionality was the relative influence of ‘sympathetic interlocutors’ or ‘technopols’ – the economists in government with graduate degrees from US and British universities discussed above. Such technocrats were particularly abundant in Latin America and the literature suggests that when these individuals were in top decision-making positions, the market-liberalizing conditions of the IFIs were likely to be both met and exceeded (Stallings, 1992; Williamson, 1994; Domínguez, 1997; Babb, 2001; Woods, 2006: 72–6). The bearers of American-style economic expertise were frequently not elected officials, but technocrats appointed to interact with the IFIs and other powerful external actors at a time of international crisis (Markoff and Montecinos, 1993; Centeno, 1994; Babb, 2001). Their policy preferences were not necessarily shared by the population as a whole, or even within their own governments, and sometimes candidates elected on entirely different sorts of platforms surprised national voters by implementing Washington Consensus reforms (Stokes, 2001; Buira, 2003). Yet, whatever the nature of the popular mandate, the withholding of IFI resources contributed to the defeat of non-reforming governments; conversely, governments that endorsed reforms were rewarded with resources that helped them stay in power and implement reforms. All of this suggests that the roles of transnational norms and transnational power were deeply intertwined, and that IFI conditionality shifted national paradigms not directly, by forcing compliance, but indirectly, by benefiting some political actors over others in national political contests (Williamson, 1994: 567).


Fewer than a dozen years after Williamson’s original observations, the editor of Foreign Policy observed the rise of a new ‘Washington Confusion’. The list of policy reforms required by the IFIs was getting steadily longer and more difficult, and debates among development experts had become so heated that they were ‘spilling over from scholarly seminars to television shows and from the pages of technical journals to those of daily newspapers’ (Naím, 2000: 506).

Many economists saw the lengthening list and escalating disagreements as part of a process of scientific evolution and adaptation to new evidence (Kucynski and Williamson, 2003). Others saw it as evidence of the regrettable tendency of development experts to follow ephemeral ‘fads and fashions’ (Naím, 2000). All tended to focus on scholarly economists and their development recipes, rather than on the practice of conditionality.
In retrospect, however, it seems indisputable that the IFI conditionality was a fundamental cause of the weakening of the Washington Consensus. Unlike the old-fashioned conditionality of the IMF (the aim of which was limited to controlling inflation and stabilizing national currencies), the explicit premise of the new conditionality of the Washington Consensus was that the IFIs should be in charge of changing the underlying architecture of national economies with the explicit goal of creating ‘sustained growth’. Placing the IFIs in charge of this more ambitious mandate had three unintended consequences. The first was increased criticism of their ‘boilerplate’ approach to the problems of developing countries, in which the same recipe was prescribed for all, irrespective of particular circumstances (Stiglitz, 2002: 47). This was a predictable result of putting large, bureaucratic organizations in charge of prescribing policy models. Such organizations are notorious for developing standardized programmes for action – programmes that might or might not be appropriate to the problem at hand (March et al., 1993: 177).

The second unintended consequence of the Washington Consensus conditionality was that it created enormous possibilities for disconfirmation. In the post-War era, the IMF had been in the business of stabilizing currencies, and the World Bank and regional development banks in the business of lending for projects such as highways and dams. In contrast, under the Washington Consensus, the IFIs were tasked with persuading governments to make politically difficult and painful structural reforms – with the promise that the short-term pain would be justified ultimately by ‘sustained growth’. This created the appearance of an unprecedented, global natural experiment on the effectiveness of liberal policies in developing countries.

Consequently, evidence accumulated that appeared to disconfirm the Consensus. A series of devastating financial crises – in Mexico, East Asia, Russia and Argentina – suggested to some that the Consensus was flawed (Weisbrot, 2007; Stiglitz, 2008). Perhaps, most strikingly, in Latin America, where Washington-inspired reforms had been widespread (Lora, 2001), economic growth mostly failed to materialize.

However, this evidence did not speak for itself, but was subject to different interpretations by economists whose ideas were drawn on selectively by political actors. In Washington, one interpretation of the evidence was associated with the public positions of Columbia University economist Joseph Stiglitz, and inspired by information-theoretic economics. As chief researcher at the World Bank in the late 1990s, Stiglitz argued that markets functioned imperfectly in the absence of perfect information, and were particularly imperfect in developing countries; blinded by market fundamentalist ideology, the IMF had worsened the problems of developing countries (Stiglitz, 2002). The US Treasury successfully pressured the World Bank to fire Stiglitz shortly thereafter (Stiglitz, 2002; Gopinath, 2000;
A very different interpretation came mainly from Congressional Republicans in alliance with conservative think-tanks such as the Heritage Foundation and the Cato Institute. Their position was that the Washington Consensus had failed not because the recipe was mistaken, but because it had not been followed (Sheehy testimony in US House, 1994: 553). This view came to be institutionalized in the prescriptions of the Meltzer Report, a bipartisan Congressional commission aimed at IFI reform (International Financial Institution Advisory Commission, 2000).

Finally, there was what we might consider to be the ‘establishment’ position endorsed by the World Bank, the US Treasury and think-tanks close to the US Treasury, such as the Institute for International Economics (IIE). In this view, the Washington Consensus was essentially correct, but had paid insufficient attention to the institutional and legal frameworks – such as bankruptcy law and independent judiciaries – that markets needed to function correctly. With US support and encouragement, ‘governance reforms’ – changing bankruptcy laws, judicial systems, et cetera – became a standard element of IFI conditionality (Kapur and Webb, 2000). They became one of the two major innovations of a new, ‘augmented’ or ‘second generation’ version of the Washington Consensus and an expansion of conditionality. The other innovation was to include ‘pro-poor’ conditions to the list, a response to political initiatives from NGOs and sympathetic members of the US Congress (Babb, 2009: 160–9).

The augmentation of the Consensus was widely viewed in Washington as signifying a kinder, gentler Consensus – one that did not assume that markets worked perfectly or that they could adequately address the issues of the poor. From the perspective of the developing country governments, however, the extension of the Consensus was often perceived as further diminishing their ‘policy space’ (Gallagher (ed.), 2005). For example, at the height of the Asian financial crisis in 1997, Indonesia’s Letter of Intent to the IMF committed the Indonesian government to more than 100 policy conditions, including, for example, privatization, the removal of price controls and trade barriers, the revision of national bankruptcy legislation, and the changing of laws governing corporate mergers and acquisitions (Indonesia Letter of Intent reproduced in US House, 1998: 80–5).

This points to the third unintended consequence of IFI conditionality: mission creep (Einhorn, 2001; Babb and Buira, 2005). Now that international lenders were in the business of promoting appropriate policies, they became vulnerable to pressures to expand their activities and took on reforms that went far beyond Williamson’s original ‘consensus’ list. Some new conditions undoubtedly generated far less ‘consensus’ among economists. These included, for example, the privatization of public water utilities, the imposition of ‘user fees’ (charges for access to government services, such as public education), the privatization of public pension systems, and the replacement of progressive taxation systems with
value-added taxes. Perhaps, most controversially, the IMF began to pro-
mote capital account liberalization (the removal of government controls
on the speculative movement of capital in and out of a country), a policy
opposed by many mainstream economists. For some observers, the IMF’s
promotion of capital account liberalization was caused by pressures from
the US Treasury, which was itself under the influence of Wall Street (Wade
and Veneroso, 2004/1998). For others, it was caused by the particular intel-
lectual slant of the economists within the IMF (Abdelal, 2007; Chwieroth,
2010). Yet, whatever the explanation, the IMF’s foray into capital account
liberalization would have been impossible in an earlier era, when struc-
tural policies were not considered to be the IMF’s concern.

A CHANGING CONTEXT: 2001–PRESENT

During the last decade of the twentieth century, the evidence apparently
falsifying the Washington Consensus had been processed mainly in and
around Washington – by economists and other officials within the US Treas-
ury, the US Congress, think-tanks and the IFIs themselves. By the end of
this period, however, the paradigm was confronted by new pressures com-
ing from outside the beltway – both political pressures from developing
countries and intellectual pressures from academic economists.

At the end of the 1990s, Latin America was considered a Washington
Consensus success story (Lora, 2001; Domínguez, 1997). Yet, less than a
decade later, many Latin American governments were headed by left-wing
leaders elected on platforms that repudiated the Washington Consensus –
both the reforms and the IFI conditionality that encouraged them (Silva,
2009). The political processes that brought about these domestic paradigm
changes are beyond the scope of this article, but a common feature was
a general sense that the Washington Consensus had failed to deliver on
its promises and hurt the most vulnerable, and that IFI conditionality was
best avoided whenever possible. In these countries, as in Washington, the
IFIs’ more visible role in development policy exposed the Washington
Consensus to critique and disconfirmation.

The rejection of conditionality was directed most forcefully at the IMF,
the IFI that imposes the most unwelcome advice, since it serves as a gate-
keeper to private resources and arrives only in times of crisis, when gov-
ernments are desperate to forestall further economic damage (Feldstein,
1998). The Fund was blamed by Stiglitz and other economists for prescrib-
ing ‘boilerplate’ policies that actually worsened the Asian financial crisis of
1997–98, including its classical austerity measures and the removal of cap-
ital controls (Sachs, 1998; Feldstein, 1998; Stiglitz, 2002; Weisbrot, 2007).
Several years later, Argentina – once considered a leading Washington
Consensus success – suffered a severe currency crisis that the IMF simi-
larly appeared to exacerbate. Argentina ultimately defaulted on its private
BABB: THE WASHINGTON CONSENSUS

debt – and even temporarily to the IMF. After less than a year of economic distress, Argentina began a robust recovery, suggesting to many observers that it was both possible and desirable to flout the IMF’s advice (Weisbrot, 2007). As Argentine President Nestor Kirchner remarked in 2005, ‘There is life after the IMF and it is a very good life’ (Lerrick, 2007).

In the wake of these events, a group of developing countries has emerged that is willing to take IFI advice only selectively and under circumstances of their own choosing. Some of these, such as India and China, were always relatively autonomous from IFI advice; others, such as Brazil, Russia, Bolivia, Ecuador and Argentina, were formerly repeat IMF customers. The BRICs countries, along with other similarly-situated medium-income countries, have insulated themselves from IFI conditionality by accumulating large currency reserves and even – in the case of China – their possession of a large stock of US government debt. Some paid off their debts to the IMF with great public fanfare (Buira, 2005; Bello and Guttal, 2005). In Latin America, a Bank of the South was founded with Venezuelan oil revenues to provide an alternative to Washington IFIs, and more established sources of regional multilateral financing, such as the Latin American Reserve Fund and the Andean Development Corporation, dramatically increased their operations (Grabel, 2010: 14). Table 1 shows that since Argentina’s default, IMF lending to Latin America has diminished significantly. Most strikingly of all, the nations of East and Southeast Asia have simply removed themselves from the IMF’s orbit: It has been a decade since a government from this region has had an IMF arrangement. The World Bank and regional development banks, although less forcefully rejected than the IMF, also began to lose middle-income customers. As one World Bank report noted, middle-income borrowers became ‘increasingly selective about the [policy-conditional lending] areas in which they invite Bank engagement’ (World Bank, 2009: 16).

For a time, these events had a devastating impact on a key source of IFI revenue: ‘reflows’, or the interest earned on loans to their most profitable clients (Lerrick, 2006, 2007). After 2008, the global economic crisis and subsequent renewal of shareholder commitment put these organizations on a much firmer financial footing. Yet, the newly-empowered BRICs and other similar countries have become a powerful force for reforming the IFIs. Within the forum of the G-20, these countries have called for a more democratic IFI voting structure – one not dominated by the US and the G-7. In response, both the World Bank and the IMF have adopted changes to their voting structures. Thus far, these changes have been considerably more modest than developing country governments had hoped – for example, the US has maintained its veto power within both organizations (Wade, 2011).

Meanwhile, there were important changes in the intellectual environment that had legitimated the Washington Consensus for so many years.
Table 1 IMF lending arrangements approved: Calendar years 1986–96, 1997–2003, 2004–10

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<td>No. of</td>
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<tr>
<td>Central Asia</td>
<td>9</td>
<td>3.01</td>
<td>3</td>
<td>2.29</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>East/Southeast Asia</td>
<td>14</td>
<td>4.68</td>
<td>10</td>
<td>7.63</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Eastern/Central Europe</td>
<td>55</td>
<td>18.39</td>
<td>27</td>
<td>20.61</td>
<td>24</td>
<td>19.2</td>
</tr>
<tr>
<td>Latin America/Caribbean</td>
<td>60</td>
<td>20.07</td>
<td>35</td>
<td>26.72</td>
<td>28</td>
<td>22.4</td>
</tr>
<tr>
<td>Middle East/North Africa</td>
<td>20</td>
<td>6.69</td>
<td>5</td>
<td>3.82</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>South Asia</td>
<td>14</td>
<td>4.68</td>
<td>7</td>
<td>5.34</td>
<td>3</td>
<td>2.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>127</td>
<td>42.47</td>
<td>44</td>
<td>33.59</td>
<td>55</td>
<td>44</td>
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<tr>
<td>Western Europe</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1.6</td>
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<tr>
<td>Other</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0.8</td>
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<tr>
<td>Total</td>
<td>299</td>
<td>100</td>
<td>131</td>
<td>100</td>
<td>125</td>
<td>100</td>
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Source: IMF Annual Reports, various years; IMF Financial Activities Index.
Economists, such as Stiglitz, whose theoretical work emphasizes the failures of markets rather than the defects of states, have become prominent within the discipline and have even been winning Nobel Prizes. The prescriptions of development experts have become more ecumenical and less certain about the benefits of unfettered markets. Perhaps more importantly, there has been an increased awareness among development economists about the perils of boilerplate recipes. For, as Harvard economist Dani Rodrik observes, ‘The economics that the graduate student picks up in the seminar room – abstract as it is and riddled with a wide variety of market failures – admits an almost unlimited range of policy recommendations, depending on the specific assumptions the analyst is prepared to make’ (Rodrik, 2007: 3). It seems indisputable that these recent intellectual trends were produced, at least in part, out of the experiences of the developing countries with the Washington Consensus.

A PARADIGM SHIFT?

In the spring of 2009, at a meeting of the G-20, British Prime Minister Gordon Brown announced that ‘the old Washington consensus is over’ (Weisman and Macdonald, 2009). As we have seen in the previous two sections, there are many good reasons to believe this is true – both the political and the intellectual environments that brought the Consensus into being have changed considerably. Does this mean that a new paradigm is on the rise?

For Hall (1993: 284), the defining characteristic of a policy paradigm shift is the rise of a competing paradigm that radically alters both the ‘hierarchy of goals and [the] instruments employed to guide policy’. Anything less than this represents adaptation within the existing paradigm. Measured against this standard, neither the policy changes recently adopted by national governments nor those adopted within the IFIs qualify as a paradigm shift. In this sense, the Washington Consensus lives on.

There is no question that some more powerful developing country governments – including those of the BRICs and a number of others – have recently embraced an approach towards economic policy that differs considerably from the one that prevailed 20 years ago. Although this approach varies from country to country, it is generally reminiscent of post-War Third World economic nationalism, and often includes such elements as the placing of conditions on foreign investment, the promotion of national development bank financing for domestic industries, and even the renationalization of some previously privatized industries (Mortimore and Stanley, 2010). These trends, along with the erosion of the old paradigm, have caused some to argue that the Washington Consensus is being replaced by a new ‘Beijing Consensus’ (Ferchen, 2012).
A common feature of these new models is their aversion to conditional- ity – the core practice of the Washington Consensus as it was practised by the IFIs – and to the boilerplate recipes and mission creep that accompanied it. However, if we measure these new policy models against the Washington Consensus as it was originally observed, it is striking how little has changed (Ban, Ferchen and Rutland, forthcoming). When it was launched, the Washington Consensus prescribed ‘prudent macroeconomic policies, outward orientation, and free-market capitalism’ (Williamson, 1990a: 1). With some minor exceptions (such as Bolivia and Venezuela), there are few signs of a re-endorsement of state ownership of the means of production or even the ‘mixed economy’ that was so popular in the post-War Third World. The BRICs policy models encourage domestic industrialization by channelling credit to targeted industries and requiring that foreign investors engage in technology transfer and use local suppliers – but to the end of creating and maintaining globally competitive export industries (Mortimore and Stanley, 2010). Most striking of all has been their reputation for macroeconomic prudence. Today’s BRICs are renowned for their accumulation of central bank reserves and (in spite of current concerns over inflation in Brazil and China) quite stable prices when viewed in historical perspective (Bresser-Pereira, 2009).

In short, a group of more powerful developing country governments that have no need or desire to conform to IFI conditions are nevertheless pursuing policies that are not that far removed from those prescribed by the original Washington Consensus; their national policy paradigms seem to represent what Hall (1993) would term as ‘second-order’ variants within the old paradigm. There are undoubtedly many reasons for this relative continuity. Where the IFI conditions have become less relevant, other forces continue to incentivize the policies of these governments, such as the discipline of private capital markets and the rules of the World Trade Organization (Stallings, 1992; Mosley, 2002; Chorev and Babb, 2009).

However, there are also important normative factors to consider. After all, we live in a world that has mostly come to accept market capitalism as the only viable option – and one in which an ever-more internationalized economics profession is increasingly recognized as the most qualified to provide advice on capitalist economies. Throughout the developing world, American-trained and British-trained economists maintain a strong foothold in economic policy bureaucracies (particularly in finance ministries and central banks, which often dominate other areas of government). These policymakers tend to be closely connected to the international economics profession, to structurally homologous policymakers in other countries, and to international financial institutions. Under these circumstances, it is not surprising that national economic policies have not deviated far from the original script: They are embedded in ‘worldwide
models constructed and propagated through global cultural and associational processes’ (Meyer *et al*., 1997: 144).

If we turn our attention to the IFIs’ own Washington Consensus paradigm, we can see that the changes have been similarly incremental: The paradigm has evolved without being transformed. Since its inception, the Washington Consensus – and, indeed, largely because of the Washington Consensus, as I argue above – the IFIs have faced tremendous pressures to change. Since the late 1990s, the World Bank has steadily decreased the proportion of ‘structural adjustment’ loans in its portfolio; after 2004, the controversial term was dropped entirely from the Bank’s policy lexicon (World Bank, various years). Today, the preferred term is ‘development policy loan’. A World Bank report issued in 2005 acknowledged that ‘there is no unique universal set of rules’ and called for humility and respect for diversity in the prescription of development policies (Nankani 2005: xii). In 2008, the Bank appointed a Chicago-trained mainland Chinese economist, Justin Yifu Lin, to head its economic research department. Lin was known for his acknowledgement of the role of the state in Chinese development as well as for his rejection of ‘cookie-cutter’ approaches to development (Batson, 2008).

For its part, the IMF partially disavowed its previously militant stance toward eliminating inflation and called for fiscal stimuli to forestall global economic recession and a global tax on private banks to insure against future crises. Indeed, it has even acknowledged that capital controls could under some circumstances be beneficial for national economies – although a subsequent report seemed to contradict this stance (*The Economist*, 2010).

On the surface, these theoretical and rhetorical developments seem to indicate that the IFIs have abandoned the Washington Consensus in favour of a new policy paradigm. However, if we turn from the realm of ideas to the concrete practice of conditionality, we can see that the changes have been more evolutionary than revolutionary. Since the late 1990s, the most notable change in this core practice of the Washington Consensus has been the refinement and improvement of the mechanisms for its application. Both the World Bank and the IMF have been moving towards ‘ex ante’ conditionality, under which resources are disbursed only *after* policy changes have been made, making it much more difficult to avoid compliance. Ex ante conditionality was strongly endorsed by the Meltzer Commission, the George W. Bush administration and other leading shareholder governments, and was pressed by the US during negotiations for the replenishment of the resources of the World Bank and the regional development banks (Babb and Carruthers, 2008; Adam, 2004; Babb, 2009: 196–203).

Ex ante conditionality has undoubtedly been more effective than the old-fashioned variety in changing the behaviour of the IFIs’ most difficult clients. It has also enabled the IFIs to distance themselves from the
Washington Consensus while continuing to incentivize many of the same macroeconomic and market-liberalizing policy reforms. For example, in 2009, the IMF announced the establishment of a Flexible Credit Line to provide condition-free financing for borrowers meeting specific preconditions. Although this sounds like a retreat from conditionality, it is essentially an ex-ante vehicle for rewarding governments for having previously adopted what the IMF deems to be good policies. In that same year, the IMF publicly renounced the use of structural performance criteria – that is to say, performance criteria aimed at making underlying structural reforms to national economies, such as privatization and liberalization. But critics have pointed out that the IMF continues to impose its traditional macroeconomic performance criteria and that it remains committed to cracking down on government deficits and inflation (Muchhala, 2010; Jubilee USA Network, 2010). Moreover, the IMF continues to require structural reforms by using alternatives to performance criteria – ‘structural benchmarks’ and ‘prior actions’ (Grabel, 2010: 9). Prior actions are ex ante policy measures that countries must implement before receiving IMF resources. Structural benchmarks are non-quantifiable policy commitments that have a more ambiguous legal status than performance criteria, and hence allow IMF management and staff greater discretion in deciding whether or not to suspend disbursements (Babb and Buira, 2005). Within the World Bank, there has been a similar refinement of the vehicles of conditionality, coupled with the maintenance of the core practice of the Washington Consensus. Although the term, ‘structural adjustment’, has been banished to the past, ‘Development Policy Loans’ – the Bank’s new term for policy-based lending – continue at more than 30 per cent of their total portfolio, and jumped to more than 50 per cent in response to the recent financial crises. As Figure 1 shows, there is a clear dividing line in the World Bank’s history between the pre-1980s era and after, with policy-based lending representing a substantial portion of the Bank’s portfolio from the 1980s through the present, suggesting continuity with the Washington Consensus era.

Recent World Bank reports portray contemporary Development Policy Loans as entirely different from their ‘structural adjustment’ predecessors – more ‘country-owned’, more protective of the poor, and including a much more varied list of ‘augmented’ reforms (World Bank 2009). However, market-liberalizing conditions remain part of the mix. For example, a recent study on World Bank conditionality from 2006 through 2008 found that 19 per cent of the Bank’s conditions related to privatization or commercialization (Alexander, 2009). Moreover, like the IMF, the World Bank has been moving towards more effective ex-ante conditions. The Bank increasingly favours ‘single-tranche’ operations, in which countries implement reforms and are only subsequently rewarded with loans or grants (World Bank, 2009). It also regularly rates countries for the quality of their policies under the Country Policy and Institutional
Assessment (CPIA) rating system. In order to get access to World Bank programme loans, governments usually need to receive an average or better CPIA rating – and this rating places considerable weight on market-liberalizing reforms (World Bank, 2005; EURODAD, 2010; Alexander, 2009). Both ‘single-tranche’ operations and the CPIA system represent ex ante vehicles for rewarding governments that adopt what the Bank views as desirable policies. Also, like the IMF, the Bank is regularly using ‘prior actions’ and has increasingly moved towards policy ‘benchmarks’ – less formal policy commitments, which, if consistently violated, may cause a government to be denied financing in the future. Finally, the effectiveness of conditionality has been enhanced by the Bank’s increasingly common practice of collaborating with other aid donors, which makes it more difficult for governments to evade World Bank conditions by looking to bilateral and other sources of financing (Alexander, 2009).

Given the considerable pressures on the IFIs to move away from the Washington Consensus, how is it possible that its core elements remain in place? One plausible explanation is bureaucratic inertia. The World Bank, in particular, has a vested organizational interest in maintaining structural conditionality since it creates a demand for World Bank loans (and a justification for donor support) at times of declining demand for project loans. The second explanation, which complements the first, is simply that the IFIs’ leading shareholders, including the US Treasury, continue to support the old paradigm. Faced with a conflict between organizational interests and shareholder demands on the one hand, and a new set of external pressures on the other, the IFIs seem to have adopted the classic organizational tactic of ‘loose coupling’ – producing rhetoric and research output that signals a move away from the old Consensus, while maintaining many of the same lending practices, albeit in a more refined form (Weick, 1976; Meyer and Rowan, 1977; see Weaver, 2008 for an excellent account of loose coupling in the World Bank).

**CONCLUSION**

This article has argued that the Washington Consensus was neither an economic theory nor a particular list of reforms, but a transnational policy paradigm that was institutionalized at two levels – within the governments that adopted the reforms and the IFIs that encouraged them. The Washington Consensus was soon weakened by its own internal vulnerabilities and the changing intellectual and political circumstances. However, it has not yet been overthrown by a competing paradigm, either at the national or transnational level. I would like to conclude by reflecting on some lessons this analysis holds for our understanding of the dynamics of policy paradigms, and then speculating about what we should expect will replace the Washington Consensus in the near future.
The literature on the political power of economic ideas has focused on policy paradigms developed within industrial democracies, and almost exclusively on the transition towards and away from Keynesianism policy (Hall, 1989, 1993; Weir and Skocpol, 1985; Blyth, 2002; Lindvall, 2009). There has been insufficient attention paid to the dynamics of policy paradigms within the governments of developing countries and within organizations such as IFIs, subject to non-democratic political forces. More importantly, because Keynesian macroeconomic policy was so closely associated with an academic theory, it has been easy to forget that there are important differences between policy paradigms and the economic theories that legitimate them. Unlike economic theories, policy paradigms are embedded in the practices of powerful organizations; unlike economic theories, they are forged through political processes in which the advice of some experts gets selected over the advice of others.

Hall (1993) suggests that political factors become important at the very end of one paradigm (and the beginning of another). In contrast, I have shown that political factors were important not only to the establishment of the Washington Consensus, but also to its more incremental adaptations to disconfirming evidence – from governance reform to ex ante conditionality. This suggests that among the bureaucracies that host policy paradigms, some may be more permeable to political pressures than others. For example, the paradigms of shareholder-controlled organizations, such as IFIs or private corporations, may be more responsive to routine political pressures. In short, we should be more alert to the ways in which policy paradigms behave differently in different sorts of institutional contexts.

We should be even more cautious about generalizing about transnational policy paradigms. Some institutionalists in organizational sociology have argued that national policies are increasingly structured by transnational normative forces – the legitimacy of modern norms such as scientific knowledge, economic development and human rights (Meyer et al., 1997; Boli and Thomas, 1997). This analysis suggests that sometimes, these normative factors may be channelled and amplified by coercive pressures from powerful organizations.

Whether a transnational paradigm is more or less coercively diffused can have important consequences for its characteristics and consequences. For example, like the Washington Consensus, post-War Keynesianism was legitimated by expert knowledge, it specified both the means and ends of policy in a particular domain and was adopted by multiple national governments. Yet, unlike the Washington Consensus, Keynesianism was only rarely diffused through coercive pressures (Hirschman, 1989: 352). The result, according to many observers, was a heterogeneous ‘embedded liberal’ regime under which a range of domestic policy arrangements
proliferated (Ruggie, 1983). These policy models included not only a variety of national Keynesianisms, but also a range of different types of Third World experiments with ‘developmentalist’ policies, some of which were unsuccessful, and others, a wild success (Hirschman, 1981; Gereffi, 1992; Evans, 1995). We would expect more normative diffusion of policy paradigms to allow for variety and experimentation of a sort that is discouraged by more coercive diffusion, which tends to develop boiler-plate recipes designed for the convenience of transnational bureaucracies: Normative diffusion is more conducive to ‘policy space’ (Gallagher, 2005).

What should we expect to replace the Consensus in the future? A true successor to the Washington Consensus would be a policy model legitimated by economic knowledge, embraced by the policymakers of many national governments, and enforced by transnational authorities. Any unified new vision of this sort would have to overcome at least three separate political cleavages: the division between the wealthy governments accustomed to controlling them and powerful new emerging-market countries; the division among wealthy shareholders, who are more likely than ever to disagree about IFI policies; and the deep political divisions within Washington. Moreover, it would have to overcome the current fragmented intellectual environment around issues of economic development.

For all these reasons, it seems likely that no transnational policy paradigm will replace the Washington Consensus in the near future. What seems to be emerging, instead, is a more heterogeneous international regime that is less uniformly structured by transnational policy paradigms. IFI rules are still being followed, particularly by the poorest governments, but not by the more powerful emerging-market governments with the means to bargain for their dilution or to avoid them entirely. Many other transnational rules governing developing-country policies today are likely to be non-paradigmatic – that is to say, not legitimated by the advice of economic experts. These rules include an expanding number of bilateral and regional trade agreements and those applied by the World Trade Organization.

Nevertheless, economics scholarship remains a powerful normative force in structuring the activities of governments around the world. Even in many of the countries that are currently repudiating the Washington Consensus, ambitious young people continue to travel to the Anglophone world for economics PhDs, and to return to academic jobs or important government positions in their home countries (Montecinos and Markoff, 2009). If the policy advice that these economists bring home is neither unanimous nor unqualified enough to constitute a consensus, perhaps it is all to the good.
ACKNOWLEDGEMENTS

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NOTES

1 Williamson’s original list included 10 items, which were: fiscal discipline; reordering public expenditure priorities away from things such as indiscriminate subsidies towards basic health, education and infrastructure investment; tax reform to combine a broader tax base with moderate marginal rates; the liberalization of interest rates; a competitive exchange rate; trade liberalization; liberalization of inward foreign direct investment; privatization; deregulation; and property rights (Williamson, 1990b, 2003).

2 I am referring both to classical institutional theory (e.g., Gouldner (1954), Selznick (1949)) and the ‘new institutionalism’ (e.g., DiMaggio and Powell (1983) and Meyer and Rowan (1977)).

NOTES ON CONTRIBUTOR

Sarah Babb is Professor of Sociology at Boston College. She has published work on such topics as the internationalization of economics in Mexico, changes in the lending practices of the International Monetary Fund, and the role of Washington politics in shaping the policies of the World Bank and regional development banks.

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