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The Decalogue of Washington Consensus Policies: A Study in Economic Diplomacy

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Abstract **Review Article**

Economic diplomacy focuses on the economic variable of international relations. Like political diplomacy, economic diplomacy involves bargaining and reconciliation of the economic interests of states in the international system. The subject matter of economic diplomacy usually includes; trade and commerce between and among states. Many states and governments now engage in what has been called economic nationalism, that is to say, "governmental direction and control of foreign economic matters". The aim is to achieve the state' economic, political or security objectives by protecting the domestic market, increasing trade opportunities abroad; making attracting foreign investment, etc. In the process of this, the personnel of a country's Foreign Ministry, Diplomatic Missions and Ministry of finance are usually involved. Talks are arranged among states' representative to iron out difficulties in the way of trade or mutual economic cooperation. The term 'Washington Consensus' was coined by John Williamson in 1989 when he was examining the principles of development economics that had guided economic policy in Latin America since 1950s. The Consensus is as set of ten policy presentations or principles promoted by institutions based in Washington DC—primarily, the International Monetary Fund (IMF), the World Bank and US Treasury. This paper is a discourse on the ten major principles of the Washington Consensus,. Using the analytical method and relying mainly on secondary resourse materials from the International Monetary Fund, the paper argue that the consensus is more or less the 'manifesto for the capitalist economic development 'which the United States and the West have made and want the whole world to accept it as the only and best blueprint for economic development in line with the spirit and letter of the liberal capitalist market system. The paper in its findings, submit that these ten principles are neoliberal policies imposed on the hapless states in the global south by the Washington based international financial institutions to perpetuate the structural subordination and subjugation of the periphery's economies for debilitating dependency on the states of the global north and in pursuance to the promotion of the economies of the 'Core' or the center that stifled the technological dynamism and economic diversification of the global south in favour of the global north.

Keywords: Economic Diplomacy, International Relations, Economic Nationalism, Washington Consensus, Neoliberal Policies.

INTRODUCTION:

The Washington Consensus was a Latin version of what had in fact become a worldwide consensus by the 1990s. It had in common with the international version the conviction that economic prosperity could only be obtained by *harnessing the power of markets*. This was associated with a view of government interventionism as a fountainhead of distortions that represses creativity and causes resource to be misallocated. The new paradigm that economic development was too important to be left in the hands of government planners and bureaucrats. Development policy, therefore, had focus on freeing and enabling markets to "get prices right". Official World Bank and Inter-American Development Bank (IDB) document that appeared during the 1980s heralded the coming of this new age for development thinking, clearly signaling that they had left academic circles and was being mainstreamed into practical policy. [Nancy Birdsall,2010:87]

However, there are two defining features of the Washington Consensus. The first has to do with the quest for macroeconomic stabilization and the second , a market shift towards an outward oriented growth strategy. Given the

perennial economic crisis which is a recurring decimal in developing states of the global south, it may not be out of place to introduce macroeconomic policy rectitude. The shift toward sound macro management remains a condition for market based development and this shift was necessitated by the exhaustion of import substitution theory and the successes of East Asian export led growth which had propped these economies into the path of sustainable development. [Davis Ricardo,2001:211]
The Washington Consensus has ten basic economic principles. They include fiscal discipline, re- prioritization of public expenditure, tax reform, positive interest rate and competitive exchange rate. Others are trade liberalization, foreign direct investment, privatization, deregulation and property rights.
This paper is a critical analysis of the ten principles of the Washington Consensus. Toward this end, the paper is structured in three parts. Part one outlines the ten principles while part two provides a critical analysis of the consensus. Part three is the concluding remarks.

The Decalogue of the Washington Consensus Policies: As earlier argued, the Washington Consensus has ten principles. This part of the paper outline of these policies. They are :

- Fiscal discipline : this fiscal discipline entails an appropriate measurement of budget deficits of state , local government enterprises and the central bank in such a way that will ensure their finances without recourse to the inflation tax.

- Re- prioritization of public expenditure: The Consensus stipulates that public spending should move away from politically popular but economically unwarranted projects [bloated bureaucracies, indiscriminate subsidies] to neglected areas with high economic returns and the potentials to improve income distribution [primary health and educational infrastructure]

- Tax Reform : The policies called for improved measures and horizontal equity. It also demand that the tax base should be broad and tax rates moderate. That taxing interest on assets held abroad [flight capital] should become a priority in the medium term.

- Positive Real Interest Rate: For the consensus, interest rates should be market determined. As this could be destabilizing in an environment of weak confidence. Policy should have more modest objectives for the transition, mainly to abolish preferential interest rates for privileged borrowers and achieve a moderately positive real interest rate.

- Competitive Exchange Rate The consensus stipulates that countries need a unified [at least for trade transaction] exchange rate set at a level sufficiently competitive to induce a rapid growth in non - traditional exports and managed so as to assure exporters and this competitiveness will be maintained in the future.

- Trade Liberalization : The consensus suggest that quantitative trade restrictions should be replaced by tariffs, and these should be progressively reduced until a uniform low tariff in the range of 10% is achieved.

- Foreign Direct Investment : The Consensus calls for the abolition of barriers impeding foreign direct investment and to allow foreign and local firms to compete on equal terms.

- Privatization : The Policies demand for bs full privatization of all state enterprises.

- Deregulation : The Washington Consensus demand for the abolition of regulations that impede the entry of new firms or restrict competition and to ensure that all regulations are justified by such criteria as safety of the environmental protection or prudential supervision of financial institutions. And

- Property Rights : The legal system should provide secure property rights without excessive costs and make these available to the informal sector. [John Williamson,2002: 117].

Analysis and Implications of The Washington Consensus : From the afore mentioned principles, this part of the paper analyses the policies and their implications on the economies of the developing states of the global south.
The first principle deals with fiscal discipline. It suggests the rationing of government borrowing and avoidance of large fiscal deficits relative to the size of the economy, measured by the gross national product. The second principle has to do with re- ordering public expenditure priorities by redirecting finances from the subsidies to broad based provision of key pro- growth, pro- poor services such as education, health care and infrastructure investment. The third policy deals with tax reform which specifically involves the broadening of the tax base and the adoption of moderate marginal tax rates. Looking at the first three principles, all have bearings with fiscal reforms. The fourth principle focus on the liberalization of interest rate and stipulates that the interest rate should be determined by unseen hands [the forces of demand and supply]by, rather than the monetary bodies and the maintenance of positive of real but moderate interest rate. The fifth principle concerns the adoption of a competitive rate that makes export cheap in foreign currency. Given the elements of the fourth and fifth principles, they are all about interest and exchange rates policies.
Liberalization of trade and foreign direct investment make up the sixth and seventh principles. This is inevitable because one of the underlying objectives of corporate Washington is to find markets, cheap labour and cheap natural resource. The trade liberalization lays much emphasis on the elimination of trade barriers, such as tariff and quotas. Also, the seventh principle places much premium on the liberalization of inward foreign direct investment, which means that foreign investors should be free to invest in any sector of the domestic economy.

The eighth, ninth and tenth principles concerns privatization, deregulation and property rights which are all related because deregulation and property rights leads to privatization and engenders the smooth operations of privatized enterprises in pursuance of profit maximization. In addition, property rights gives legitimacy to the taking over of public assets by foreign investors and privatization amounts to selling state enterprises at bargain prices. Deregulation means the abolition of regulated policies that restrict market entry and competition except based on the grounds of safety, environmental and consumer protection and oversight of financial institutions. The last principle focus on the legal security for property rights. These ten principles of the Washington Consensus can be grouped under four areas – fiscal reforms, interest and exchange rate policies, liberalization, privatization and deregulation. In fact the central thesis of the consensus is – liberalize, deregulate and privatize. The other elements involves reducing the tax rate, under the grounds of boosting economic growth and employment. While low interest rates makes it cheaper for transnational corporations to acquire privatized state assets. [Nancy Birdsall, Augusto Torre and FelipeCaicedo, 2010:87].

Implications of The Consensus On The Economies of States in The Global South :

A critical assessment of the Washington consensus policies reveals that the intention and purpose of these principles is to undermine the role of the state in economic development for the private sector and market forces to thrive. The whole essence of the consensus is to play out the states and its institutions in the developmental process. It is a systematic erosion of the state power in policy making concerning the economy and the reassigning of that role to the private sector, the market forces and foreign firms and financial institutions at the detriment of the local entrepreneurs and economic development in the global south. John Nellis and Nancy Birdsall,2005:34]

The real intention behind fiscal discipline as preached by the consensus to states in the global south is a calculated measure to reduce the size and efficacy of the public sector in the economy. Redirecting public expenditure to health and education on face value judgement, sound nice and noble but enough evidences has proved that the rules and conditionalities of the international monetary fund who is the custodian and preacher of the consensus are at variance with social expenditures because any available money are directed to the payment of external debts of these developing states.

Without any sense of contradiction, there are no parameters to determine what competitive exchange rate is because the so called exchange rate tend to be misaligned because of allowing it to operate at the mercy of the market forces. Competitive exchange rate amount to giving foreign investors underserving advantage in the purchase of cheap public assets, courtesy of privatization and undervalued local currency. Other principles are designed to benefit foreign investors and the local collaborators at the detriment of the state and its critical mass. [John Williamson, 2002:76]

There is no doubt that Washington consensus is birthed, nursed and thrives on neo-liberal policies and the doctrine of free market economy, purposely designed to eliminate government completely from economic activities. It is presented pretentiously as the rules that the developing countries of the global south must strictly adhere to achieve economic prosperity and stability. The propaganda staged by the preachers and exponents of the consensus had to a large extent influence the economic reforms in the states of the global south. The International Monetary Fund [IMF] and its western allies use the logic of 'carrots and big stick' to impose these consensus based reforms on the developing states, - 'carrots' by making them to believe that applying the policies is the only way to economic prosperity and sticks by threatening deprivation of economic resource like loan, grant aid, among others, provided by the IMF and World bank. [Albert Hirshchman,2001:113].

Some scholars have argued that the neoliberal agenda which underpins the consensus rest on two pillars - boosting competition through deregulation and the opening up of the domestic economy, including financial markets to foreign investors, pushing or relegating the state to the background of economic activities through privatization and the imposition of limits on the ability of government to run fiscal deficits. One question readily comes to mind – who are the main beneficiaries of privatization and opening of the domestic economy. The answer to this question is – the industrialized states of the west and their trans- national corporations and the losers are the critical masses of the global south.[Guillermo Calvo,2001:319]

While developing states does not stand to benefit from the neoliberal economic ideology, the developed states of the west and their transnational firms are having their field day because the basic measures to engender profit maximization in their favour has been put in place. These measures which are unimpeded flow of capital, prohibition of protecting young industries and the intellectual property regime places the foreign firms in advantage positions of dominating the economies of the global south [Moises Naim.2002:210].

Naim further argued that the appeal of the Washington consensus was facilitated by its self - assured tone, its prescriptive orientation, its directional message and its origin in Washington, the capital of the 'new imperialists'. This was pushed by the pressure from the IMF and the World bank on borrowing states by tying the conditions of their loans upon the adoption of the consensus inspired policy reforms. Political leaders and policy makers in the borrowing states are apprehensive of the possible failure to comply with the conditionalities from Washington as indicative of their lack of political will. These policies were presented by their exponents as reasonable changes inspired by lessons of experience learned from the era of imperialism. [Naim,2002:211]

Naim further argues that since the emergence of the Washington consensus, its advocates have been divided about the pace and sequence of the reforms – the implementation of the principles. Also, very remarkable differences emerged about the need for the application of the 'shock therapy' approach to the reforms. This approach requires the adoption and implementation of all the policies as fast as possible. However, history has proved the efficacy of this approach wrong in the post- communist era in Russia and post Ghaddaffi era in Iraq. [Dani Rodrik, 2006:222].

One of its major advocates, John Williamson [2000:16.] had argued that the first three of the ten policy prescriptions have received a considerable level of acceptance within the international economic community. He also admitted that the remaining seven principles has generated serious controversy among political economists and policy makers though he failed to give reasons why a country like the United States and its western allies have not followed some of the policy prescriptions . Williamson further argued that one of the lest controversial of the policy is the re prioritization of public expenditure, which prescribed the re- direction of public spending to infrastructure, education and healthcare has been neglected by many countries. For Williamson, some of the prescriptions focused on reducing some functions of the state, through privatization of state enterprises are would enable the state to undertake measures towards supporting health and education issues. However, it does not follow that once a state;s role in the economic sector is reduced, it ipso – facto engender the upgrading of health and education facilities.

In the light of Williamson's assertion, this paper argues that trying to give a human face to the Washington consensus is a mere façade because experience has shown that in practice, the IMF does not encourage state to spend more in health and education as the bulk of resourses are channeled to payment of external debts. Since the introduction of the Washington Consensus and the imposition of its ten commandment of economic prosperity, experience so far has proved that the so – called reforms in line with the consensus has not worked. This paper is of the view that the benefits of these policies have been over- hyped. This is so because in the case of financial openness, some capital flows such as foreign direct investment, do appear to confer the benefits claimed for them. [Douglass North,2005:97]

A critical assessment of the consensus reveals some defects in the principles. One, some of these policy prescriptions are not based on good and practical economics realities, rather these principles are sterotyped and driven by the capitalist ideology that economic efficiency can be achieved by reducing government roles in the economy, and the gains or profits made by the few capitalist will trike down to the critical mass of the country. Two, some of the policies prescribed for and imposed on the developing countries such as free trade, competitive exchange rate, positive interest rate and fiscal discipline are not practiced by the western developed states, and three, therefore these policies are deliberately designed to impoverished the developing states of the global states in order to perpetuate the dependency syndrome. [John Williamson,2002:118.]

For instance, experience has shown that free trade is not always in the best interest of the developing states, because the strict adoption of free trade based on the theory of comparative advantage made the developing economies to permanently remain producers of primary products that are vulnerable to fluctuating or manipulating prices. Secondly, the adoption of strict fiscal discipline always goes with untold hardship, due the drastic reduction of government spending on some sectors of the economy. Undoubtedly, it is safe to ensure that external borrowing is reduced to a manageable level, especially in a developing economy, but spending cut at a wrong time can destroy social welfare programmes and consequently brought in hunger and abject penury.

Another weakness of the consensus policies has to do with the one that calls for the redirection of public spending toward education and healthcare. The Consensus based conditionality imposed by the IMF on the developing economies always leads to drastic reduction in social expenditure. The un- disputed fact remains that the consensus policy as implemented by the IMF and the World bank always aims at reducing the size of the public sector which invariably means privatization and directing almost all the resources to external debt service, consequently leading to economic maladies. [John Williamson,2000 :98]

On the other hand, the apologists of the Washington Consensus have raised some issues in defending these policy prescriptions. Their arguments are based on the fact that the 'ten commandment' of the consensus have sound economic validity that can be rightly justified as good economic principles. They have argued that widening the tax base, investment in education, sustainable external borrowing and flexible exchange rate can facilitates a sustained economic prosperity. Without any sense of contradiction, broadening the tax base is purposely designed to the cutting of taxes for rich people and firms, tantamount to transferring the wealth of the state from the critical poor masses to the few wealthy capitalists. Also, sustainable external borrowing is not out of place but the strict limit on spending as prescribed by the IMF most times lead to poverty, hunger and deprivation. On the argument whether flexible exchange rate can boost social welfare, it is apt to argue that based on experience, flexible exchange rate does not augur well for the developing economies. The Consensus also preached that privatization and free trade engenders economic prosperity. However, there is nothing factual about this claim because history has proven that privatization and free trade mostly benefits transnational foreign firms at the detriment of the developing economies.

Concluding Remarks: Washington Consensus is a concept that prescribe ten major economic reforms. These include fiscal reforms interest and exchange rate policies, liberalization of trade and foreign direct investment, privation and deregulation. These policies are in line with neo- liberal policies, implemented by the IMF and world bank. It is seen as development strategies focusing on privatization, liberalization and macro- stability. The three word of the consensus which captures the whole essence of the consensus is ‘ privatize, liberalize and deregulate’, aiming at relegating the state to the periphery of economic activities, creating the enabling environment for private capital to thrive , using the market forces as the major determinant of equitable, stable and sustainable economy. In conclusion, the paper asserts that the so – called reforms prescribed by the Washington consensus has not worked and will not work for the developing economies. The consensus is associated with neo- liberal policies and free market doctrine, which encourages a diminishing role for the state in economic activities but the apologists of the consensus want us to believe that the consensus remains the blueprints for economic prosperity for the developing economies. The consensus main objectives is to forced the neo – liberal form of globalization preached by the IMF and World bank for the benefit of the capitalist west, their transnational firms and local cronies at the detriment of the critical mass of the states in the global south.

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