WHAT SHOULD THE BANK THINK ABOUT THE WASHINGTON CONSENSUS?

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Ten years ago I invented the term "Washington Consensus". While it is jolly to become famous by inventing a term that reverberates around the world, I have long been doubtful as to whether the phrase that I coined served to advance the cause of rational economic policymaking. My initial source of concern was that the phrase invited the interpretation that the liberalizing economic reforms of the past two decades were imposed by Washington-based institutions like the World Bank[1], rather than having resulted from the process of intellectual convergence that I believe underlies them.[2] From this standpoint, much better terms would have been Richard Feinberg's "universal convergence" (in Williamson 1990) or Jean Waelbroeck's "one-world consensus" (Waelbroeck 1998).

However, I have gradually developed a second and more significant concern. I have realized that the term is often being used in a sense significantly different to that which I had intended, as a synonym for what is often called "neoliberalism" in Latin America, or what George Soros (1998) has called "market fundamentalism". When I first came across this usage, I asserted that it was erroneous since that was not what I had intended by the term. Luiz Carlos Bresser Pereira patiently explained to me that I was being naïve in imagining that just because I had invented the expression gave me some sort of intellectual property rights that entitled me to dictate its meaning: the concept had become the property of mankind. To judge by the increasing frequency with which this alternative concept is being employed by highly reputable economists (such as Stiglitz 1999, n.33), I fear that Bresser had a point.

The battle of economic ideas is, as McCloskey (1998) has argued, fought to a significant extent in terms of rhetoric. This means that the dual use of a term with strong ideological overtones can pose serious dangers, not only of misunderstanding, but also of inadvertently prejudicing policy stances. Specifically, there is a real danger that many of the economic reforms that the Bank tends to favor - notably macroeconomic discipline, trade openness, and market-friendly microeconomic policies -- will be discredited in the eyes of many, simply because the Bank is inevitably implicated in views that command a consensus in Washington and the term

"Washington Consensus" has come to be used to describe an extreme and dogmatic commitment to the belief that markets can handle everything. The set of WDR 2000 consultations already held have led to questions about the consistency of the Bank's supposed ideological base and its commitment to reducing poverty.

The objective of this paper is to consider what should be done to minimize the damage to the cause of intellectual understanding, and therefore of rational economic reform, that is being wrought by the current widespread use of the term "Washington Consensus" in a sense quite different to that originally employed. Should one, for example, try to insist that the original usage is the "correct" one? Or should one simply refuse to debate in these terms? Or could one escape by declaring fidelity to some "post-Washington Consensus"? The paper is based on the presumption that the first stage in adopting an appropriate stance is a careful examination of the semantic issues involved, in the spirit I learned from my thesis adviser, Fritz Machlup.

The paper therefore starts by reviewing my original version of the Washington Consensus. It goes on to cite a considerable number of alternative "definitions" that have been offered in the past couple of years, to establish the thesis that the term has come to be used as a caricature of my original definition. It then proceeds to discuss whether "Washington Consensus policies" promote or prejudice the cause of poverty reduction. Finally, it considers alternative possible reactions to the semantic dilemma that has been created by the appropriation of the term to mean something different to what was originally intended.

The Original Version

My original paper (Williamson 1990, ch.2) argued that the set of policy reforms which most of official Washington thought would be good for Latin American countries could be summarized in ten propositions:

- Fiscal discipline.
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure.
- Tax reform (to lower marginal rates and broaden the tax base).
- Interest rate liberalization.
- A competitive exchange rate.
- Trade liberalization.
- Liberalization of FDI inflows.
- Privatization.
- Deregulation (in the sense of abolishing barriers to entry and exit).
- Secure property rights.

The first three reforms are, so far as I am aware, widely accepted among economists. (Nevertheless, when I reviewed the progress that Latin American countries had made in implementing the recommended set of policies several years later,[3] I concluded that the least progress had been made in implementing the second policy, redirecting public expenditure priorities.) All the others have stimulated a measure of controversy, and therefore merit comment. I note in particular reactions to them within the Bank and in East Asia.

In my original paper, I specified the fourth reform as "interest rate liberalization". I am well aware that there are people in the Bank, starting with the Bank's Chief Economist, Joseph Stiglitz, who would have reservations about that formulation. As a matter of fact, I have such reservations myself: in a recent paper with Molly Mahar (Williamson and Mahar 1998), we identified interest rate liberalization as merely one of six dimensions of financial liberalization. Moreover, Stiglitz (1994) has argued that interest rate liberalization should often come toward the end of the process of financial liberalization, inasmuch as a ceiling on the deposit interest rate (equal to the Treasury Bill rate, he suggests) might provide a constraint on gambling for redemption. I find this argument persuasive, and long ago changed my description of the fourth element of the Washington Consensus to "financial liberalization". More recently Stiglitz has expressed a much more basic objection than this, and argued (citing the World Bank's *East Asian Miracle* study in support) that one important element of the success of some East Asian countries stems from their policy of directing credit to particular industries rather than allowing the market to determine the allocation of credit (Stiglitz 1998). That argument is highly contentious, specially in the aftermath of the East Asian crisis.

My fifth reform area, a competitive exchange rate, is one where I long since concluded I was a bad reporter of the Washington scene. By 1989, I suspect that a majority of economists, in Washington as elsewhere, were already in favor of either firmly fixed or freely floating exchange rates, and hostile to the sort of intermediate regime that in my judgment gives the best promise of maintaining the exchange rate competitive in the medium term. (My own preference therefore remains for an intermediate regime of limited flexibility, provided that excludes an old-fashioned adjustable peg, even though I would concede that such a regime may be more likely to spawn speculative pressures than a floating rate.) But the East Asian countries, in contrast, did by and large achieve and maintain competitive exchange rates, at least prior to about 1996 (and even then it is not obvious that the failure was wider than Thailand).

My sixth reform was trade liberalization. Here I see little reason to doubt that I reported accurately on opinion in the Washington of the international financial institutions and the central economic agencies of the US government (although parts of Congress and the Department of Commerce are not noted for their dedication to liberal trade). But this is another area where critics can rightly claim that the policies that nurtured the East Asian miracle were, at least in some countries, at odds with what was endorsed in the Washington Consensus. Much the same is true of FDI, except that in that dimension there was less hostility to a policy of openness in East Asia, with only Korea having kept itself largely closed to FDI during the years of the miracle.

Privatization commanded a lot of support in Washington, from where it had been put on the international agenda by James Baker when he was Secretary of the U.S. Treasury, in his speech to the Bank/Fund Annual Meetings in Seoul in 1985. It was controversial in much of the rest of the world, where one's attitude to public versus private ownership had long provided the litmus test as to whether someone would qualify as left-wing or right-wing. Deregulation was rather less politically polarizing: it had been initiated by the centrist Carter administration, rather than the right-wing Thatcher government which pioneered privatization. Again, however, this was not a policy that had reverberated in East Asia, where the industrial policies pursued in some (though not all) countries ran very much in the opposite direction. The notion of the importance of secure property rights had come both from the law and economics school in Chicago and the work of Hernando de Soto in Peru. The concept was presumably offensive to those who resisted the advance of the market economy, but this was an extinct breed in Washington by 1989 (if, indeed, it had ever existed). My impression is that the institution of private property was somewhat more securely entrenched in East Asia than in most of the rest of the developing world.

So much for the content of my version of the Washington Consensus. From where did it come? In an immediate sense, it originated from my attempt to answer a question posed to me by Hans Singer during a seminar at IDS, namely, what were these "sensible" policies that were now being pursued in most of Latin America, and which I was arguing merited approval of the Brady Plan for debt relief? In a more profound sense, it was an attempt to distill which of the policy initiatives that had emanated from Washington during the years of conservative ideology had won inclusion in the intellectual mainstream, rather than being cast aside once Ronald Reagan was no longer on the political scene.[4] Standing back even more, one can view it as an attempt to summarize the policies that were widely viewed as supportive of development at the end of the two decades when economists had become convinced that the key to rapid economic development lay not in a country's natural resources, or even its physical or human capital, but rather in the set of economic policies that it pursued.

Let me emphasize that the Washington Consensus as I conceived it was in principle geographically and historically specific, a lowest common denominator of the reforms that I judged "Washington" could agree were needed in Latin America as of 1989. But in practice there would probably not have been a lot of difference if I had undertaken a similar exercise for Africa or Asia rather than Latin America, and there was still a lot of overlap when I revisited the topic (with regard to Latin America) in 1996 (Williamson 1997). This doubtless made it easier for some to interpret the Washington Consensus as a policy manifesto that its adherents supposedly believed to be valid for all places and at all times -- which takes us on to consider the alternative interpretation of the concept that has become so popular in recent years.

Current Usage

Let me offer a selection of recent definitions of the Washington Consensus that I have happened to stumble across (I have undertaken no bibliographic research to compile this list).

"A die-hard liberalization advocate (or a Washington-consensus believer)…" Takatoshi Ito, "The Role of IMF Advice", a paper presented to an IMF conference on Key Issues in Reform of the International Monetary and Financial System in Washington on 29 May 1999.

"…the self-confident advice of the 'Washington consensus' - free-up trade, practice sound money, and go home early..." David Vines, in an obituary for Susan Strange, the Newsletter of the ESRC Programme on Global Economic Institutions, no. 9, 1999.

"…the Washington Consensus: policy prescriptions based on free market principles and monetary discipline." Koichi Hamada, in Nikko's *Capital Trends,* September 1998.

"The Washington Consensus had the following message: 'Liberalize as much as you can, privatize as fast as you can, and be tough in monetary and fiscal matters.'" Gregorz Kolodko in *Transition,* June 1998.

"The bashing of the state that characterized the policy thrust of the Washington Consensus…" Annual Report of the United Nations University, 1998.

"This new imperialism, codified in the 'Washington Consensus…'" M. Shahid Alam "Does Sovereignty Matter for Economic Growth?", in J. Adams and F. Pigliaru, eds., *Economic Growth and Change* (Cheltenham: Edward Elgar, 1999).

"The Brazilian crisis has reignited the debate over the so-called Washington Consensus on the creation of a laissez-faire global economy." Ramkishen S. Rajan in a Claremont Policy Brief on "The Brazilian and other Currency Crises of the 1990s", May 1999.

These examples suggest that, in the minds of many economists, the term has become a synonym for "neoliberalism" or what George Soros (1998) has called "market fundamentalism" (which is far and away my favorite term for this set of beliefs). Now anyone who read the preceding section of this paper will recognize that this was hardly the sense in which I originally used the term. On the contrary, I thought of the Washington Consensus as the lowest common denominator of policy advice being addressed by the Washington institutions to Latin American countries as of 1989, a year when the market fundamentalism of Reagan's first term had already been superceded by the return of rational economic policymaking and it was pretty clear which of the ideas of the Reagan years were going to survive and which were not (monetary discipline but not monetarism, tax reform but not tax-slashing, liberalization of trade and FDI but maybe not complete freedom of capital movements, deregulation of entry and exit but not a casual attitude to prudential supervision of financial institutions or the suppression of regulations designed to protect the environment).

Can one explain how a term that was invented to summarize the lowest common denominator of policy advice that survived the demise of Reaganomics came to be used to mean the most extreme version of Reaganomics, a set of doctrines that may have temporarily conquered many of the commanding heights of Washington in the early 1980s but that neither the Fed nor the Bank[5] ever endorsed, which makes it pretty difficult to argue that it ever commanded a consensus? How is it that a term intended to describe a technocratic policy agenda came to be used to describe an ideology?

The closest I can come to understanding this is to note that my version of the Washington Consensus did indeed focus principally on policy reforms that reduced the role of government, such as privatization and the liberalization of trade, finance, FDI, and entry and exit. It did this because the orthodoxy of the generation whose ideas were embodied in the practices being challenged in 1989 had been much more statist than was by then regarded as advisable, and hence the policy reforms that were needed at that time were all in the direction of liberalization. This did not to my mind imply a swing to the opposite extreme of market fundamentalism, and a minimalist role for government, but that is what seems to have been assumed in the rather simplistic way in which such ideological issues are debated, or at least in the way which came to be assumed as a result of the ideological debates of the 1990s. For it is certainly true that the Washington Consensus came to be used to describe an ideological position, a development that Moises Naim (2000) argues to be a result of the world's acute need for a new ideology to provide a focus for debate in place of the god that had failed. My qualifications about this being an agenda for a specific part of the world at a particular moment of history were quickly forgotten, as the search for a new ideology, to endorse or to hate, was perceived to have succeeded. According to Ravi Kanbur (see his discussion that follows), staff of the Bretton Woods institutions perceived themselves as storming the citadels of statism, which led them as a negotiating ploy to demand more in the way of liberalizing reforms than they really expected to achieve, a tactic that rather naturally led citizens in our client countries to identify the Washington institutions with something closer to market fundamentalism than we may have believed in.

This interpretation is consistent with what Paul Krugman (1995, p.29) said several years ago:

Williamson's original definition of the Washington Consensus involved ten different aspects of economic policy. One may, however, roughly summarize this consensus, at least as it influenced the beliefs of markets and governments, more simply. It is the belief that Victorian virtue in economic policy--free markets and sound money--is the key to economic development.

Thus Krugman sees my original formulation as having been simplified to focus on a couple of key elements, and gave his own blessing to that simplification.

Although its use as a synonym for market fundamentalism appears to be the dominant usage, not everyone uses it that way. In particular, I have the impression that many members of the Bank staff (certainly including those who authored the Report of the Latin American Region, *Beyond the Washington Consensus: Institutions Matter*[6]) still use the term in the way that I intended, and I think most of them would endorse the reform agenda to which I had applied the term as a reasonably accurate and appropriate summary[7] of what the Bank, along with other agencies concerned with the promotion of development, was, and should have been, advising countries to do.

The Bank's (former) Chief Economist, Joseph Stiglitz, has recently clarified that he uses the term in the alternative, neoliberal, sense (Stiglitz 1999, n. 33). This at least makes it clear that he was not attacking his colleagues when, in his keynote address to the 1999 ABCDE, "Whither Reform? Ten Years of the Transition", he spoke of reviewing "the major ways in which, for want of a better term, I shall refer to as the 'Washington Consensus' doctrines of transition, failed…". He proceeded to attack the priority given to rapid privatization and the inattention paid to establishing competition or to building social and organizational capital, and later he spoke of "…the standard form of voucher privatization promoted by the Washington Consensus…". I am not aware that anyone much in Washington has ever displayed any particular preference for voucher privatization: certainly this was not a theme of the 1996 *World Development Report*. Personally I agree with Stiglitz about the substantive questions he raises: I agree that one can put too much emphasis on rapid privatization and that it is much more important to do it right than to do it quickly; I agree that the great merit of privatization is when it can be used to further competition; I am skeptical about voucher privatization; and I think I agree about the importance of social and organizational capital, if I understand what the words mean (I would describe them as social cohesion and good institutions respectively). What I do not understand is what is gained by describing these sensible ideas as refuting a doctrine described by a term that many people in the Bank regard as providing a useful summary of the advice the Bank dispenses.

Do Washington Consensus Policies Promote Poverty Reduction?

The answer, quite obviously, depends on which interpretation of the Washington Consensus one is referring to.

Let me take first the popular, or populist, interpretation of the Washington Consensus as meaning market fundamentalism or neo-liberalism: laissez-faire, Reganomics, let's bash the state, the markets will resolve everything… It will presumably come as no surprise that I would not subscribe to the view that such policies would be good for poverty reduction. We know that poverty reduction demands efforts to build the human capital of the poor, but on the populist interpretation the Washington Consensus signally fails to address that issue. We know that an active policy to supervise financial institutions is needed if financial liberalization is not to lead to financial collapse, which invariably ends up by using tax revenues to write off bank loans that were made to the relatively rich. And some measure of income redistribution would be recommended by any policy that was primarily directed at reducing poverty rather than simply maximizing growth, but all income redistribution is ruled out as plunder by market fundamentalists. For these three reasons, at least, I would agree that the populist interpretation of the Washington Consensus is inconsistent with the Bank's emphasis on poverty reduction. (Of course, since the Bank has never endorsed this version of the Washington Consensus, it does not have anything to apologize about.)

A plausible alternative concept of the Washington Consensus would be that it consists of the set of policies endorsed by the principal economic institutions located in Washington: the US Treasury, the Federal Reserve Board, the IMF, and the World Bank. There is at least one respect in which I would argue that the policies they advocated in the 1990s[8] were inimical to the cause of poverty reduction in emerging markets: namely, their advocacy of capital account liberalization. This was in my view the main cause of the contagion that caused the East Asian crisis to spread beyond Thailand (Williamson 1999), and the crisis has caused a tragic interruption to the poverty reduction those countries had achieved in the preceding years.

Consider finally my version of the Washington Consensus, which, I have suggested, may also be the interpretation used by some Bank staff. The inflation caused by fiscal indiscipline is bad for income distribution, so I see no reason to apologize on that score. The second reform specifically involved redirecting public expenditure inter alia toward primary health and education, i.e. toward building the human capital of the poor. Tax reform can be distributionally neutral or even progressive. A competitive exchange rate is key to nurturing export-led and crisis-free growth, hence in the general interest, including that of the poor. Trade liberalization, certainly in low-income, resource-poor countries, increases the demand for unskilled labor and decreases the subsidies going to import-competing industries that use large volumes of capital and employ small numbers of workers, many of them highly skilled, and therefore tends to be pro-poor.[9] FDI helps to raise growth and to spread technology, provided, at least, that import protection is not excessive, so that the Brecher-Diaz Alejandro (1977) case of immiserizing growth does not arise. (I quite consciously did not include full capital account liberalization in my version of the Washington Consensus, because I did not believe it commanded a consensus, if only because I could not believe I was the only person in Washington who feared that capital account liberalization could precipitate the kind of tragedy we have witnessed in East Asia.) The impact of privatization depends, in my view, very much on how it is done: the sort of insider/voucher privatization that happened in Russia allows the plunder of state assets for the benefit of an elite, but a well-conducted privatization with competitive bidding can raise efficiency and improve the public finances, with benefits to all, including the poor. Deregulation will in general involve the dismantling of barriers that protect privileged elites (even if some of them, like trade unionists, have difficulty thinking of themselves as an elite), and hence there is a strong presumption that it will be pro-poor. Private property rights are certainly a defense primarily for those who have private property, but the improvement of such rights is nonetheless very likely to be pro-poor, because the people who find themselves especially unable to defend their property when property rights are ill-defined are principally the poor (e.g., Hernando de Soto's squatters on the periphery of Lima).

Note that I have omitted one of the ten reforms from the preceding list, namely financial/interest rate liberalization. This is the primary focus of Stiglitz's criticisms when he talks of something that I can recognize as akin to my version of the Washington Consensus. I have recognized for some time (see Williamson 1996) that my first formulation was flawed, in that it neglected financial supervision, without which financial liberalization seems all too likely to lead to improper lending and eventually a crisis that requires the taxpayers to pick up the losses that result from making loans that turn bad to the relatively rich (Williamson and Mahar 1998). But should we therefore endorse the view that directed lending as happened in some (not all) of the East Asian countries is pro-growth and thus ultimately pro-poor? On this issue, at least, I would have thought that the East Asian crisis, especially what happened in Korea, should have tempered enthusiasm for East Asian practice. The high debt/equity ratios that resulted from the directed lending were certainly among the causes of the financial fragility that so deepened the impact of the crisis.

I conclude that, for most of the reforms embodied in my version of the Washington Consensus, the presumption is very much that they will be pro-poor. In a few cases this conclusion is sensitive to the way in which reform is implemented: this is certainly true of tax reform, of privatization, and above all of financial liberalization. But I see no reason for backing away from endorsement of my version of the Washington Consensus by a Bank that has reaffirmed poverty reduction as its overarching mission. That is not at all to claim that the Washington Consensus, in any version, constituted a policy manifesto adequate for addressing poverty. My version quite consciously eschewed redistributive policies, on the view that George Bush's Washington had not reached a consensus on their desirability. In broad terms, with the qualifications that have been noted above, I would subscribe to the view that the policies embodied in my version of the Washington Consensus are pro-poor but need to be supplemented in a world that takes the objective of poverty reduction seriously. I would hope that WDR 2000 will be about what form that supplementation needs to take, rather than raking over ancient ideological battles that seemed to me to have been settled when I coined the phrase "Washington Consensus" to describe the terms of the intellectual settlement.

The Semantic Dilemma

I suggested in the Introduction three possible ways of reacting to the semantic dilemma posed by the different meanings that have come to be attached to the term Washington Consensus. Let me turn to a consideration of these alternative possible ways of reacting to this dilemma.

Insistence on the Original Usage

One possibility is to try and insist that my version of the Washington Consensus is the only correct and legitimate interpretation, as a corollary of which the Washington Consensus will (with the qualifications noted above) be recognized as pro-poor. This strikes me as both presumptuous and unrealistic: I accept that Bresser was fundamentally correct, and that once a term has escaped into the public domain one cannot dictate the re-establishment of a common usage. The likely result would be a perpetuation of the public confusion that I am attempting to address (although hopefully this paper would still do something to reduce that confusion).

Abandon Use of the Term

A second possibility would be to refuse to debate in the terms that have been so compromised by widespread adoption of the "populist definition". I cannot imagine that this would bring an end to the populist usage of the term, with all the dangers of misleading the public about the Bank's intellectual position that I previously argued this carries with it. That would simply be a cop-out.

Endorse a Post-Washington Consensus

A more promising strategy has been adopted at least twice within the Bank. In 1998, the Latin America Region (LAC) launched a policy document which argued for going beyond the Washington Consensus (Burki and Perry 1998). Joe Stiglitz did almost the same, semantically at least, in urging a post-Washington Consensus in his WIDER lecture of January 1998.

When I first came across this approach, I thought it implied recognition that the reforms included in the Washington Consensus are necessary but not sufficient for promoting development, which seemed to me eminently reasonable. LAC, which uses the same interpretation of the Washington Consensus that I do, appeared to be using it to convey that message As argued above, the instruments included in my version of the Washington Consensus are indeed needed as a part of an anti-poverty strategy. But a Bank that has overcome the hang-up of the Reagan administration about redistributing income would surely want to go further, and endorse a wider array of anti-poverty instruments than were able to command a consensus in Washington in 1989, when the most I thought I could legitimately include was the promotion of public expenditure on primary health and education.[10]

LAC's *Beyond the Washington Consensus* starts by explicitly referring to my version of the Washington Consensus and asserting that the widespread implementation of the "first generation" reforms there prescribed was paying off in Latin America in resumed growth and the end of high inflation. It went on to note that the reforms had not been equally effective in terms of reducing poverty and inequality, and argued that this demonstrated a "need to focus on improving the quality of investments in human development, promoting the development of sound and efficient financial markets, enhancing the legal and regulatory environments (in particular, deregulating labor markets and improving regulations for private investment in infrastructure and social services), improving the quality of the public sector (including the judiciary), and…" This is an agenda dominated by institutional reform, which, following Naim (1995), is indeed what has become known in Latin America as the second generation reform agenda.

The problem is, of course, that it is not equally obvious why Joe Stiglitz would want to propagate a post-Washington Consensus which implied endorsing and extending its original version, given his interpretation of what was included in it. In fact, the Stiglitz version of a post-Washington Consensus does not carry endorsement of any version of the original. He is advocating a policy package that is intended to supercede the Washington Consensus rather than to endorse but extend it. His new policy package is asserted to differ from the original in two dimensions.

In the first place, he argues that the implicit policy objective underlying the Washington Consensus is inadequate. In addition to pursuing economic growth, the objectives should include "sustainable development, egalitarian development, and democratic development". To rephrase, the assertion is that policy objectives should include the state of the environment, income distribution, and democracy, as well as per capita GNP. Those objectives are ones that I personally find much more congenial than a single-minded preoccupation with economic growth, although I am not sure whether the Bank could formally endorse the pursuit of democracy (its Articles do, after all, forbid its involvement in politics).[11] In addition to expanding the objectives, Stiglitz argues that it is necessary to pursue "sound financial regulation, competition policy, and policies to facilitate the transfer of technology and transparency" in order to make markets work in a way that will support development.

My own view of what should be added to the Washington Consensus in order to draft a policy manifesto supportive of egalitarian, environmentally-sensitive development is somewhat different. I certainly agree that financial regulation (prudential supervision) deserves to be there, and transparency is inter alia a useful complement to supervision in achieving appropriate conduct of financial institutions. In addition, competition policy is a natural complement to deregulation in promoting a well-functioning market economy (although a liberal import regime is the most effective competition policy in tradables, as Srinivasan argues in his accompanying paper). I would not have included technology transfer in such a manifesto, although I would have no objection to including institutional changes that seemed likely to promote technology transfer, if I was reasonably confident that I knew what these are (besides accepting FDI). Similarly, I would consider it desirable to include policies focused on the improvement of environmental conditions, although I am not sure that I would know how to select policy measures at a comparable level of generality to my ten original points. But my emphasis would have been different, and more similar to that in the LAC report. Specifically, I would have focused much more generally on institutions. To explain why, let me offer a brief history of post-war development thinking.

In the first wave of theorizing about economic development, from the 1940s to the early 1960s, all the emphasis was on the accumulation of physical capital as the key to development (as reflected in Harrod-Domar, the Lewis model, and the two-gap model). The second phase recognized that human capital provided another and more inelastic constraint on development, a constraint that explained why Europe and Japan had recovered from World War Two much more rapidly than developing countries had been growing even after the initiation of developmentalist policies and the beginning of large-scale aid. The third phase started around 1970 with the work of Little, Scitovsky and Scott (1970) and Balassa (1970), and emphasized that the policy environment influenced the level and dominated the productivity of investment. The Washington Consensus attempted to summarize the outcome of the debate on what policy stances are conducive to economic development. The major advance of the 1990s stemmed above all from recognition that the central task of the transition involved building the institutional infrastructure of a market economy. This was complemented by growing recognition that good policies can be sabotaged by bad institutions. We have seen this viewpoint reflected inter alia in Stiglitz' writing on the transition, in Moises Naim's writing on what needed to come after the Washington Consensus (Naim 1995), in the LAC Report (Burki and Perry 1998), in the WDRs of 1997 and 1998, and in the Bank's decision to launch a crusade against corruption.

So what should one make of the idea of launching a post-Washington Consensus? It will doubtless be clear that I would not be happy at such a move if it were interpreted a la Stiglitz to imply rejection of "the" Washington Consensus, although I would have no problem if it involved rejection of the populist, or market-fundamentalist, version. On that interpretation, the Washington Consensus deserves to be rejected since it would indeed be of doubtful value in reducing poverty. But even if we adopt my interpretation, it seems a somewhat odd crusade to start campaigning for a new consensus. 1989 was in my view rather unusual in that the ideological battles of the Reagan era, not to mention the Cold War battle between capitalism and communism, were passing into history, leaving in their wake an unusually wide measure of agreement that a number of rather basic ideas of good economics were not only desirable but were of key importance in the current policy agenda of at least one region, namely Latin America. I see no reason to believe that we are faced with a similar coalescing of views, certainly not on the wider agenda that Stiglitz has laid before us. (Consensus on egalitarianism? With aid fatigue threatening the future of IDA? On environmental sustainability? In a world where the Senate of the only superpower refuses to even consider ratifying the Kyoto Protocol????) I agree rather with Tim Geithner (1999): "I don't think anyone believes there is some universal model that can or should be imposed on the world - Washington consensus, post Washington consensus, or not".

Some Proposals. Let me conclude by laying out my own ideas of how to resolve the dilemma.

- All serious economists should abandon the game of attacking abstract undefined concepts that are interpreted to mean whatever the author momentarily decides they mean, and instead cite those being criticized and debate policies on the basis of their merits.
- We in the Bank should recognize and emphasize that the term Washington Consensus has been used in very different ways, one of which summarizes policies that are pro-poor, but another of which uses it to describe a policy stance that offers the poor very little. Make it clear that we have no sympathy with this version (what I have called the populist or market-fundamentalist version).

- Say that we in the Bank believe it is appropriate to go beyond the Washington Consensus by emphasizing the importance of the institutional dimension as well as of the sort of policies embodied in the original version of the Washington Consensus, of policies that will promote an equitable distribution of income as well as a rapid growth of income, and of caring for the environment as well as for income.
- Reject the hopeless quest to identify a consensus where there is none, and instead engage in debate on what policy changes are needed to achieve a rounded set of objectives encompassing at least the level, growth, and distribution of income, as well as preservation of a decent environment.

I believe we will do the cause of economic development a great service if we can frame our future debate in these terms. If we can persuade the rest of the world to debate in these terms as well, we will do the cause an even greater service. Admittedly my suggestions do not answer the pleas for a new ideology that would more adequately reflect our goals, and that might thus increase the chance of establishing local ownership of the sort of economic policy stance conducive to rapid and equitable growth. Let me plead in defense that I am not a suitable person to launch an ideology, inasmuch as Moises Naim (2000) characterizes an ideology as a thought-economizing device, and I actually believe that thinking is more desirable than economizing on thought.

Notes

1. For such an interpretation, see Frances Stewart (1997).

2. The most dramatic cause of this intellectual convergence was the collapse of communism. This did not happen because of any machinations of the Bretton Woods institutions, or even of the CIA, but because socialism does not work except in a simple economy, and even then it works reasonably well only when there are large numbers of comrades inspired with revolutionary zeal.

3. Williamson (1996).

4. In trying to identify policies from the Reagan-Thatcher era that had not won consensus support, I wrote in 1996: "it [the Washington Consensus] did not declare that the only legitimate way to restore fiscal discipline was to slash government expenditure; it did not identify fiscal discipline with a balanced budget; it did not call for overall tax cuts; it did not treat as plunder the taxes raised to raised to redistribute income; it did not say that exchange rates had to be either firmly fixed or freely floating; it did not call for the proscription of capital controls; it did not advocate competitive moneys or argue that the money supply should grow at a fixed rate" (Williamson 1997, p. 50).

5. Even with Anne Krueger as the Bank's Chief Economist at that time, the Bank did not become a bastion of Reaganomics. She was replaced by the much more mainstream figure of Stanley Fischer in 1987. The current Chief Economist is Joseph Stiglitz, who certainly does not qualify as a sympathizer with Reaganomics.

6. Burki and Perry (1998).

7. Subject to the qualifications noted above.

8. The Bank was less implicated that the other three, but it certainly did not stand out as opposing the advice.

9. I concede that the issue is less clear in middle-income countries. However, international policy should be guided by a world welfare function, and on the global level it is certainly true that free trade can be expected to improve income distribution. One might hope that middle-income countries whose poor turn out to lose through freeing trade (a result that is by no means certain, though it cannot be ruled out) would choose to compensate them.

10. However, in commenting on my paper, Stanley Fischer (then the Bank's Chief Economist) argued that I could and should have gone further: "Emphasis on poverty reduction has increased in recent years and will continue to do so. [A good forecast.] The concern with poverty reduction goes beyond the belief that economic growth will reduce poverty, to the view that targeted food subsidies as well as the medical and educational programs to which Williamson refers, can reduce the number of poor people…and should be used for that purpose" (Williamson 1990, p. 27).

11. Some people might wish to add nation-building to the non-economic objectives to be pursued by development policy (as was common in the 1960s).

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