THE POST-WASHINGTON DISSENSUS

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When two studies last year detailed how the World Bank's research unit had been systematically manipulating data to show that neo-liberal market reforms were promoting growth and reducing poverty in developing countries, development circles were not shocked. They merely saw the devastating findings of a study by American University Professor Robin Broad and a report by Princeton University Professor Angus Deaton and former International Monetary Fund chief economist Ken Rogoff as but the latest episode in the collapse of the so-called Washington Consensus.

Taking off from Margaret Thatcher's famous remark, partisans of this development model during its heyday the 1980s and early 1990s claimed that the alternative to the Washington Consensus was TINA -- that is, "There is no alternative." The Washington Consensus broke with economic strategies involving heavy participation by government and positioned the unfettered market as the driver of development.

Imposed on developing countries in the form of "structural adjustment" adjustment programs funded by the International Monetary Fund (IMF) and the World Bank, the Consensus reigned until the late 1990s, when the evidence became clear that on all key criteria of development -- sustained growth, poverty reduction, and reduce inequality -- it simply was not delivering. By the first half of this decade, the Consensus had undergone a process of unraveling, although neo-liberalism remained the default mode for many economists and technocrats that had lost confidence in it, simply out of inertia.

The former adherents of the Consensus have gone off in divergent directions. Despite frequent references to it, there is, in fact, no "Post-Washington Consensus."

WASHINGTON CONSENSUS PLUS

Mindful of the failures of the Washington Consensus, the IMF and the World Bank are now promoting what Nobel laureate Joseph Stiglitz has disdainfully described as the "Washington Consensus Plus" approach, that is, that market reforms, while crucial, are not enough. Financial reforms, for instance, must be "sequenced," if we are to avoid such debacles as the Asian financial crises, which even the Fund now admits was due to massive capital inflows into countries that liberalized without strengthening their "financial infrastructure." Mindful of the Russian descent into the hell of mafia capitalism in the 1990s, the two institutions also now talk about the importance of accompanying market reform with institutional and legal reforms that can enforce private property and contracts. Other accompaniments of market reforms are "good governance" and policies to "develop human capital" such as female education.

This mix of market and institutional reforms were consolidated in the first years of this decade in the so-called Poverty Reduction Strategy Papers (PRSP's). In contrast to what one analyst has described as the "bare knuckle neo-liberalism" of structural adjustment programs, PRSPs were not only more liberal in content but in process: they were supposed to be formulated in consultation with "stakeholders," including civil society organizations.

Despite its icing of institutional reforms, the core of the PRSP cake remains the same macroeconomic fundamentals of trade liberalization, deregulation, privatization, and commercialization of land and resources at the heart of structural adjustment programs. And community consultation has been limited to well-resourced, liberal non-governmental organizations rather than broad-based social movements. PRSPs indeed are simply second generation structural adjustment programs that seek to soften the negative impact of reforms. As IMF Managing Director Rodrigo Rato has admitted, the purpose of institutional reforms is "to make sure that the fruits of growth are widely shared and the poorest people are protected from the costs of adjustment" in order to prevent people from being "tempted to give up on orthodox economic policies and structural reforms."

NEOCONSERVATIVE NEOLIBERALISM

A second successor to the Washington Consensus is what one might call the "neoconservative neo-liberalism." This approach is essentially the development policy of the Bush administration. The inspiration for this strategy was provided by the famous 2000 report of a congressional commission on multilateral institutions headed by conservative academic Alan Meltzer, which proposed a radical slimming down of the World Bank. It supports-at least rhetorically--debt relief for the poorest countries on the ground that they won't be able to pay the debt and seeks a shift from loans to grants. However, debt relief and grant aid are conditioned on how governments perform in terms of liberalizing their markets and privatizing their industries, land, and natural resources. Indeed, the main reason for preferring grants is that, in contrast to loans channeled through the World Bank, grants, as Undersecretary of State John Taylor put it, "can be tied more effectively to performance in a way that longer-term loans simply cannot." Moreover, grants would allow pro-market reforms and aid policy generally to be more directly coordinated with Washington's security objectives and with the agenda of US corporations. Compared to the original Washington Consensus, neoconservative neoliberalism is less doctrinaire, but in an illiberal direction, ready, as it is, to let the market play second fiddle to power.

NEOSTRUCTURALISM

A third distinctive successor to the Washington Consensus, neostructuralism, moves, in contrast, in a more liberal direction. This is an approach associated with the Economic Commission for Latin America (CEPAL) that produced the structuralist theory of underdevelopment in the 1950s under the leadership of the venerable Argentine economist Raul Prebisch. According to neostructuralism, neoliberal policies have simply been too costly and counterproductive. In fact, there is no trade-off between growth and equity, as the neoliberals claim, but a "synergy." Less inequality in fact would enhance, not obstruct, economic growth by increasing political and macroeconomic stability, boosting the saving capacity of the poor, raising educational levels, and expanding aggregate demand. The neostructuralists thus propose progressive transfer payment policies that redistribute income in ways that increase the human capital or productivity of the poor, including higher spending for health, education, and housing programs. These are the kinds of programs associated with what the Mexican polemicist Jorge Castaneda has called the "Good Left" in Latin America, meaning the governments of Lula in Brazil and the Concertacion alliance in Chile.

Being focused on managing transfer payments to protect and upgrade the capacity of the poor, the neostructuralist approach does not interfere with market forces in production, unlike the policies of the "Bad Left" (meaning Hugo Chavez and friends) that intervene in production, markets, and wage policies. The neostructuralists also embrace globalization, and they say that a key objective of their reforms is to make the country more globally competitive. Because they simultaneously allegedly alleviate income disparities, upgrade the capacity of the poor, and make the work force more globally competitive, neostructuralist reforms are said to hold out the prospect of making globalization more palatable, if not popular. Neostructuralists proudly proclaim that their approach is the "high road" to globalization, in contrast to the "low road" of the neoliberals.

The problem is that neostructuralist reforms have led to what one of its most thoughtful critics, Chilean economist Fernando Leiva, calls the "heterodox paradox," that is, in the quest for systemic or comprehensive competitiveness, the carefully crafted neostructuralist policies have actually led to "the politico-economic consolidation and regulation of neoliberal ideas and policies." In the end, neostructuralism, like the Washington Consensus Plus approach, does not fundamentally reverse but simply mitigate the poverty and inequality-creating core neoliberal policies. The Lula government's targeted anti-poverty program may have reduced the ranks of the poorest of the poor but institutionalized neoliberal policies continue to reproduce massive poverty, inequality, and stagnation in Latin America's biggest economy.

GLOBAL SOCIAL DEMOCRACY

The more than residual attachment to neoliberalism of neostructuralism is less evident in the case of what we might call global social democracy, an approach that has become identified with people such as economist Jeffrey Sachs, sociologist David Held, Nobel laureate Joseph Stiglitz, and the British charity Oxfam. Unlike the three previous approaches, this perspective acknowledges the fact that growth and equity may be in conflict, and it ostentatiously places equity above growth. It also fundamentally questions the central thesis of neoliberalism: that for all its problems, trade liberalization is beneficial in the long run. Indeed, Stiglitz says that in the long run, trade liberalization may in fact lead to a situation where "the majority of citizens may be worse off."

Moreover, the global social democrats demand fundamental changes in the institutions and rules of global governance such as the IMF, WTO, and the Trade Related Intellectual Property Rights Agreement (TRIPs). David Held, for instance, calls for the "reform, if not outright abolition, of the TRIPs Agreement," while Stiglitz, says that "rich countries should simply open up their markets to poorer ones, without reciprocity and without economic or political conditionality." Also, "middle-income countries should open up their markets to the least developed countries, and should be allowed to extend preferences to one another without extending them to the rich countries, so that they need not fear that imports might kill their nascent industries."

The global social democrats even see the anti-globalization movement as an ally, with Sachs thanking it "for exposing the hypocrisies and glaring shortcomings of global governance and for ending years of self-congratulation by the rich and powerful." But globalization is where the global social democrats draw the line. For, like classical neoliberalism, the Washington Consensus Plus school, and neostructuralism, global social democracy sees globalization as necessary and fundamentally sound and, if managed well, as bringing benefits to most.

Indeed, the global social democrats see themselves as saving globalization from the neoliberals. This is all the more important because, contrary to an assumption that was gospel truth just a few years ago -- the globalization was irreversible -- the global social democrats worry that contemporary globalization is, in fact, in danger of being reversed, and they hold up as a cautionary tale about the consequences of such a development the turbulent reversal of the first wave of globalization after 1914.

To Sachs, Held, and Stiglitz, the benefits of globalization outstrip the costs, and what the world needs is a social democratic or "enlightened globalization" where global market integration proceeds but is one that is managed fairly and is accompanied by a progressive "global social integration." The aim, as Held puts it, is to "provide the basis for a free, fair, and just world economy," where the "values of efficient and effective global economic processes...function in a manner commensurate with self-determination, democracy, human rights, and environmental sustainability."

CAN GLOBALIZATION BE HUMANIZED?

There are several problems with global social democracy's attachment to globalization.

First of all, it is questionable that the rapid integration of markets and production that is the essence of the globalization can really take place outside a neoliberal framework whose central prescription is the tearing down of tariffs walls and the elimination of investment restrictions. Slowing down and mitigating this inherently destabilizing process, not reversing it, is the global social democratic agenda. That global social democrats have come to terms with the fundamental tendency of global market forces to spawn poverty and inequality is admitted as much by Sachs who sees social democratic globalization as "harnessing [of] the remarkable power of trade and investment while acknowledging and addressing limitations through compensatory collective action."

Secondly, it is likewise questionable that, even if one could conceive of a globalization that takes place in a socially equitable framework, this would, in fact, be desirable. Do people really want to be part of a functionally integrated global economy where the barriers between the national and the international have disappeared? Would they not in fact prefer to be part of economies that are susceptible to local control and are buffered from the vagaries of the international economy? Indeed, the backlash against globalization stems not only from the inequalities and poverty it has created but also the sense of people that they have lost all semblance of control over the economy to impersonal international forces. One of the more resonant themes in the anti-globalization movement is its demand for an end to export-oriented growth and the creation of inwardly-oriented development strategies that are guided by the logic of subsidiarity, where the production of commodities takes place at the local and national level whenever that is possible, thus making the process susceptible to democratic regulation.

THE LARGER PROBLEM

The fundamental problem with all four successors to the Washington Consensus is their failure to root their analysis in the dynamics of capitalism as a mode of production. Thus they fail to see that neoliberal globalization is not a new stage of capitalism but a desperate and unsuccessful effort to overcome the crises of overaccumulation, overproduction, and stagnation that have overtaken the central capitalist economies since the mid-seventies. By breaking the social democratic capital-labor compromise of the post-World War II period and eliminating national barriers to trade and investment, neoliberal economic policies sought to reverse the long-term squeeze on growth and profitability. This "escape to the global" has taken place against the backdrop of a broader conflict-ridden process marked by renewed inter-imperialist competition among the central capitalist powers, the rise of new capitalist centers, environmental destabilization, heightened exploitation of the South -- what David Harvey has called "accumulation by dispossession" -- and rising resistance all around.

Globalization has failed to provide capital an escape route from its accumulating crises. With its failure, we are now seeing capitalist elites giving up on it and resorting to nationalist strategies of protection and state-backed competition for global markets and global resources, with the US capitalist class leading the way. This is the context that Jeffrey Sachs and other social democrats fail to appreciate when they advance their utopia: the creation of an "enlightened global capitalism" that would both promote and "humanize" globalization.

Late capitalism has an irreversible destructive logic. Instead of engaging in the impossible task of humanizing a failed globalist project, the urgent task facing us is managing the retreat from globalization so that it does not provoke the proliferation of runaway conflicts and destabilizing developments such as those that marked the end of the first wave of globalization in 1914.

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