

## Washington Consensus – liberalisation/free market approach

This is the set of 10 policies that the US government and the international financial institutions based in the US capital believed were necessary elements of “first stage policy reform” that all countries should adopt to increase economic growth. At its heart is an emphasis on the importance of macroeconomic stability and integration into the international economy - in other words a neo-liberal view of globalization. The framework included:

- fiscal discipline - strict criteria for limiting budget deficits
- public expenditure priorities - moving them away from subsidies and administration towards previously neglected fields with high economic returns
- reduced role for the state
- tax reform - broadening the tax base and cutting marginal tax rates
- exchange rates - should be managed to induce rapid growth in non-traditional exports
- trade liberalization
- increasing foreign direct investment (FDI) - by reducing barriers
- privatization - state enterprises should be privatized
- deregulation - abolition of regulations that impede the entry of new firms or restrict competition (except in the areas of safety, environment and finance)
- financial liberalization - interest rates should ideally be market-determined
- secure intellectual property rights (IPR).

These ideas proved very controversial, both inside and outside the Bretton Woods Institutions. However, they were implemented through conditionality under International Monetary Fund (IMF) and World Bank guidance. They are now being replaced by a post-Washington consensus.

*How might these policies be expected to create economic development – use AD/AS diagrams to support your view?*

## Post-Washington Consensus

Criticism of many of the Washington consensus policies, including evidence of their detrimental impact on health, led to the development of the post-Washington consensus. This package of ideas and policies aims to:

- manage liberalized trade, finance and monetary systems
- include the creation of enforceable codes and standards, and concessions to social welfare through targeted social safety nets
- create vertical and horizontal policy coherence
- include businesses and firms in a Global Compact for Development and the PRSP process.

For many supporters, the post-Washington consensus differs fundamentally from the original. While the Washington consensus made economic growth the main goal of development, the new consensus moves away from the neo-liberal, market-friendly approach and places sustainable, egalitarian and democratic development at the heart of the agenda. It includes a more poverty-focused approach that protects and supports the poor and prioritizes social spending on education and health. Others argue that the original neo-liberal agenda still underpins the post-Washington consensus, saying that the social safety net aspects of the new policies are put in place as an add-on to deal with market failure.