

The Washington Consensus as transnational policy paradigm: Its origins, trajectory and likely successor

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The Washington Consensus as Policy Paradigm:
Its Origins, Trajectory, and Likely Replacement

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Abstract: This paper explores the origins and trajectory of the “Washington consensus”—the ideas associated with developing countries’ move to free markets in the 1980s and 90s. I argue that the Consensus is best understood as a product of both political and scholarly forces—not as an academic theory, but rather what Hall (1993) has termed a “policy paradigm.” In line with institutionalist theories of organizations, I further argue that the extraordinary influence of the Washington Consensus can be traced to its dual nature: it contained, first, a set of professionally-sanctioned prescriptions for developing country governments that reflected the mood among academic economists at the time: to privatize, lift trade barriers, and so on; second, it contained a set of prescriptions for international financial institutions, particularly the World Bank and International Monetary Fund (IMF), to reform the economic governance of developing countries through conditional policy-based lending. This latter element of the Consensus also contributed unexpectedly to its decline. Although it the Consensus has declined, I argue that we should not expect a new paradigm to replace it.

Twenty years ago, the “Washington Consensus” was both widely blamed and widely commended for its role in the wave of market-liberalizing policies that was sweeping across the developing world. Under its influence, developing countries’ governments privatized state-owned industries, removed trade barriers, and generally moved toward a decreased reliance on state intervention in their economies. About a decade later, many observers were concluding that the original Washington Consensus was becoming obsolete. Even in its obsolescence, however, the Washington Consensus has remained an enduring illustration of the political power of economic ideas. Today, the term continues to crop up regularly in scholarly articles, political speeches and the popular media. Meanwhile, there has been an anxious search for a new consensus to replace the old. Some of the most promising candidates so far have included the “post-Washington Consensus,” the “augmented Washington Consensus,” the “Monterrey Consensus,” the “Copenhagen Consensus,” and the “Beijing Consensus” (*see* Naím 2000; Fine, Lapavistas and Pincus 2003 [2001]; Ramo 2004; Rodrik 2006, 2007; Stiglitz 2008, Maseland and Peil 2009).

Yet in spite of all the fuss about the original consensus and speculation on its likely successor, there has been remarkably little scholarly reflection on what, precisely, all the fuss was about in the first place. As neologisms age, their origins are inevitably forgotten, and the Washington Consensus is no exception. This paper seeks both to excavate the historical foundations of the Washington Consensus, and to contribute to a more theoretically-informed understanding of what the Washington Consensus was and what happened to it. It is broadly inspired by an interdisciplinary literature on the role of ideas in policy (Hall (ed) 1989, 1993; Weir and Skocpol 1985; Blyth 2002; Lindvall 2009). It also draws inspiration from the institutionalist tradition in organizational sociology (*see* Michels 1959, Gouldner 1954, Selznick 1949, DiMaggio and Powell 1983, Meyer and Rowan 1977).

Economists who have written on the Washington Consensus have naturally tended to treat it as a set of economic ideas, responding primarily to empirical evidence and trends in economics scholarship (*see* Williamson 1990a, Naím 2000, Kuczynski and Williamson (eds.) 2003; Rodrik 2006, 2007; Stein 2008). In contrast, I argue that the Washington Consensus is best understood as a product of both political and scholarly forces—not as an academic theory, but rather what Hall (1993) has termed a “policy paradigm.” On the one hand, it contained a set of prescriptions for developing country governments that reflected the mood among academic economists at the time: to privatize, lift trade barriers, and so on. On the other hand, the Consensus also contained a set of prescriptions for international financial institutions, particularly the Washington-dominated World Bank and International Monetary Fund (IMF). Forged in a U.S.-led plan for addressing the Third World debt crisis, this second element of the Washington Consensus put international financial institutions in charge of reforming the economic governance of developing countries through conditional policy-based lending.

The dual nature of the Washington Consensus—its resonance with scholarly knowledge and its linkage to conditionality—helps explain its extraordinary influence. The Washington Consensus benefited from what institutionalists would identify as two separate sets of isomorphic forces—both the normative power of legitimate knowledge, and the coercive power of resource dependence. In the end, however, the structured incentives of conditional lending contributed unexpectedly to its decline, exposing it to criticism from academic economists and the defection from the Consensus of an emerging group of developing countries. Although the Consensus has declined, I argue that there has not yet been a radical “paradigm shift,” and that we should not expect a new paradigm to replace it.

The Washington Consensus as 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, D.C. 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 ten 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 macroeconomic policies, outward orientation, and free-market capitalism” (Williamson 1990a: 1).

What was the Washington Consensus, exactly? Economists who subsequently commented on this issue, whether in a critical or a supportive way, have tended to focus on its scholarly nature. For example, one leading critic of the Consensus is Nobel prize-winning economist 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). To this critique, Williamson retorted that none of the policies listed in his original article was particularly radical or controversial among economists (Williamson 2003:11).¹ To explain the decline of the Washington Consensus, economists have argued that it fell victim to intellectual fads and fashions (see Naím 2000), and the accumulation of empirical evidence that led experts to different understandings of what needed to be done in developing countries (Kuczynski and Williamson (eds.) 2003; Rodrik 2006, 2007).

What got lost in these discussions, however, were the political dimensions of a consensus that was, after all, named after the U.S. 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 U.S. Executive, and among “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,” produced by both scholarly and political forces.

Policy Paradigms at the Intersection of Scholarship and Politics

For Hall, a policy paradigm is a powerful and enduring framework of related ideas and standards about policy. A clear example, which Hall uses as an illustration, is the Keynesian monetary policy of the postwar period. 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 the academy influence which policy paradigms come to power, as is illustrated exceptionally well by the worldwide rise of Keynesian economic policy after the Second World War (see Hall (ed.) 1989). The need to be consonant with accepted academic wisdom keeps policy paradigms from

¹ Williamson’s original list included 10 items, which were: fiscal discipline; reordering public expenditure priorities away from things like indiscriminate subsidies toward 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 (see Williamson 1989b, 2003).

changing with the rapidity of politics. Policy paradigms are also durable because they get institutionalized in a set of taken-for-granted assumptions and routine practices. Second, like Kuhn's scientific paradigms, policy paradigms must adapt to disconfirming evidence, which may ultimately lead to a paradigm's demise and its 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).

Yet although policy paradigms are both influenced by and legitimated with respect to scholarly knowledge, they are also shaped by politics. Policy paradigms draw selectively on current scholarly wisdom in ways that reflect interests, institutions, and ideologies; this explains why the Keynesian paradigm operated so differently in different countries (Weir and Skocpol 1985; *see also* Hall (ed.) 1989; Prasad 2006). In the same vein, Lindvall (2009) finds in a comparative study of national transitions away from Keynesianism that although expert knowledge played an important role in the selection of policy instruments, the overall goals that governments pursued were a product of national political dynamics. And as Hall himself argues, "[t]he movement from one paradigm to another will ultimately entail a set of judgments that is more political in tone," and involves a change in the locus of both expert and political authority (Hall 1993: 280). For example, in Great Britain, the demise of the Keynesian paradigm occurred with the electoral victory of Margaret Thatcher, which brought a new set of actors with a distinct set of practical assumptions into office (Hall 1993). Thus, policy paradigms are what Bourdieuan sociologist Thomas Metvetz (forthcoming) refers to as "hybrid" products, straddling both political and scholarly fields.

The Washington Consensus was similarly a product of both scholarly knowledge and political dynamics. There is no doubt that trends in mainstream economics scholarship at that time constituted fertile soil for the nurturing of the Washington Consensus. By the 1980s, economics had experienced a "neoclassical resurgence" that was leading more observers of economic development to focus on the defects of states rather than of markets (Sen 1983). The Consensus, with its emphasis on market-liberalizing reforms, was developed and promoted at a time when dominant trends in economics scholarship made such reforms easy to justify (see Stein 2008).

Yet these prescriptions were also attached to a very particular set of organizational practices which were deeply embedded in the political context of the time. I am referring particularly to the conditional lending practices of international financial institutions (IFIs), particularly the World Bank and International Monetary Fund. There is no question that conditional lending was a deep and inextricable component of the Washington Consensus as it was originally observed in 1989. As Williamson put it in his paper, "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" (Williamson 1990b: 7).

The organizations engaged in imposing such "strong conditionality" were international financial institutions, or IFIs, a category of international organizations that specializes in lending money to national governments, particularly in the developing world. There are many international organizations that give national governments advice about how to conduct their policies--the United Nations, the International Labor Organization, and so on. What makes IFIs stand out is their ability to use material incentives to back up their advice. The two most

important IFIs are the International Monetary Fund (IMF), originally established to manage the Bretton-Woods system of pegged exchange rates, and the World Bank, originally in the business of funding reconstruction and development projects, such as bridges, highways, and dams. There are also four regional development banks with mandates similar to that of the World Bank (see Babb 2009).

The policies of IFIs, in turn, do not emerge out of processes of peer review and scholarly debate, but rather from the agendas of the managers who run them and the shareholder governments that own them. The policy agendas pursued by IFI managers may be shaped, in part, by trends in the world of scholarly knowledge (see Chwioroth 2009, Barnett and Finnemore 2004). This is because IFIs depend for their legitimacy on their reputations as purveyors of neutral, technocratic expertise, and are predominantly staffed by economists.

However, the policies shareholder governments promote in the IFIs emerge out of an unapologetically political process in which economic interests, strategic interests, and political ideologies all play an important role. Washington politics has been particularly important, historically, because U.S. influence in IFIs has been so strong. U.S. influence over IFIs derives not only from voting share (allocated according to capital contribution, with wealthier countries allocated larger “quotas”) but also from a range of formal and informal mechanisms of influence, including the United States’ uniquely strong bargaining position in shareholder negotiations over replenishing or augmenting IFIs’ financial resources (*see* Woods 2006, Buira 2005, Babb 2009). Consequently, any major policy initiative in the IFIs must have U.S. support, and the U.S. is uniquely positioned to lead such initiatives. The Treasury is the government agency officially in charge of U.S. policy toward IFIs, but Treasury has to win appropriations for IFIs from an often recalcitrant Congress. As a result, the policies promoted by IFI shareholders are often strongly tinged by the politics of the U.S. Congress—as the term “Washington Consensus” itself suggests (*see* Gwin 1997; Babb 2009).

The Rise of the Washington Consensus

The Washington Consensus had political as well as scholarly origins. Although the Consensus ultimately gained the support of multiple governments, actors and organizations, its two leading authors were the U.S. Treasury and the World Bank. The policies it prescribed to developing country governments were neither novel nor particularly radical; they would have been considered unexceptionable by mainstream economists a decade earlier (*see* Hirschman 1981). Instead, the novelty of the Washington Consensus lay in its use of collaborative conditional lending by IFIs, in the context of the Third World debt crisis, as a vehicle for the delivery of these reforms.

This innovative approach to IFI lending can be traced to a highly influential U.S. government plan for managing the Third World debt crisis in the middle of the 1980s. Like the earlier Reagan administration approach to dealing with Third World debt, the 1985 Baker plan was designed to prevent developing countries from defaulting on unsustainable debts by mobilizing the combined resources of the IMF and private lenders. What was novel about Baker’s plan was that it also had a role for the World Bank and Inter-American Development Bank, and that it aimed simultaneously at using conditional lending to launch a more ambitious program of restructuring the economies of developing countries. 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 testimony to U.S. House 1986, pp. 595-6).

At the core of the Baker plan was an idea that had been developed within the World Bank fewer than 10 years earlier. Traditionally, the World Bank (and the regional development banks) had specialized almost exclusively in making loans for tangible projects, such as bridges, highways and dams. In the late 1970s, global economic turbulence was holding down the Bank's expansion of its project lending activities. Ernest Stern, a top-ranking World Bank economist who had formerly worked for USAID, proposed that the Bank create a "structural adjustment" facility, whereby countries received loans for balance-of-payments support, rather than projects, and in exchange for policy reforms. The facility was approved by World Bank President Robert McNamara and was launched in 1980 (Kapur, Lewis and Webb 1997: 505-9; Stein 2008: 31).

After the appointment of a new World Bank president and the election of the Reagan administration, World Bank research moved definitively away from development economics and toward more mainstream neoclassical ideas. However, structural adjustment lending remained relatively marginal, in large part because it was viewed with suspicion by some members of the Reagan administration and many Congressional Republicans (Babb 2009: 85-125). Although Republicans liked the idea of liberating market forces, they were also prone to viewing IFIs as wasteful, unreliably multilateral bureaucracies. During the early 1980s, U.S. contributions to the World Bank and regional development banks were slashed. It was not until James Baker was appointed Treasury Secretary, under the second Reagan administration, that the U.S. began to adopt a more pragmatic position.

Baker saw that structural adjustment lending could be used by the U.S. to simultaneously achieve two objectives: to keep developing countries from defaulting on their external debts, and to open up developing countries to market forces. His plan was based a bold new conception of how international lenders could be used to serve shareholder interests. In previous decades, as one Treasury official put it to Congress, the U.S. supported IFIs because they brought "international influence on a collective basis to bear on recipient countries to maintain economic discipline and to follow *generally acceptable* development policies" (Undersecretary Walker in U.S. House 1971: 89; my emphasis). When the structural adjustment facility was first launched, the Bank's Articles of Agreement limited such lending to 10 percent of total disbursements (Please 1984:85). The IMF had a long and infamous history of making conditional loans, but the policy reforms it promoted were relatively limited in scope, and focused on fiscal and monetary conditions designed to stamp out inflation and promote currency stability. These conditions were related to the Fund's mission to promote a stable system of exchange rates; although they were unpopular, they did little to change economic fundamentals in the countries that had Fund programs (De Vries 1987, Babb 2007).

In contrast, under the Baker plan, generally acceptable policies were no longer enough. Rather, IFIs were to be in the business of promoting "appropriate policies" in developing countries, to the end of achieving "sustained growth" (Baker testimony to U.S. House 1986, pp. 595-6). Indebted countries were informed that they would receive help financing their debts if they entered into agreements with IFIs that were conditioned on market-liberalizing reforms. The Plan also instructed IFIs, especially the World Bank and the regional development banks, to play a somewhat different role from that of the past, based on three changes in policy. The first involved conditional lending for market-liberalizing policies. The second change involved heightened collaboration among IFIs (sometimes called "cross-conditionality"): to prevent governments from shopping around for easier terms, and to keep them from breaking their promises, IFIs were asked to collaborate closely to uphold one another's conditions. Third,

rather than lending on a case-by-case basis, the World Bank and the regional development banks were told they needed to develop “country strategies”—overall plans for national economies—for all borrowers, and to tailor their lending accordingly (Baker testimony to U.S. House 1986, pp. 595-6).

In the decade that followed, this new mission had a palpable impact on the IFIs activities. The 10 percent 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 percent of annual World Bank disbursements (see Figure 1 below). 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. The regional development banks began to collaborate as junior partners with the World Bank, and the Bank collaborated more closely with the IMF. The regional development banks, too, began to engage in policy-based lending, and to orient that lending around country strategies. These changes were promoted by the U.S. and other shareholders in negotiations around donor contributions to the World Bank and regional development banks (Babb 2009: 135-43).

The Baker Plan and subsequently-named Washington Consensus contained two interlocking blueprints for policy. The first was a set of prescriptions for developing countries—to privatize state owned-industries, to lift trade barriers, and so on. These were in line with the mainstream economic thinking of the day, as Williamson repeatedly pointed out. But paired with this list was a second was a policy agenda for international financial institutions, which had nothing to do with economic scholarship. None of the theories in vogue at the time—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).

Rather, the origins of the second part of the Consensus were mostly political in nature. They included, most obviously, on the ascent of economic conservatives in leading shareholder governments—not only in the U.S., but also in the U.K., Germany, and Japan. Less obviously, the Consensus was based on the Reagan administration’s move away from a more radical version of *laissez-faire* economics toward a pragmatic acknowledgement of the usefulness of international financial institutions. It was also based on a shift in thinking among U.S. policymakers about how IFIs, particularly the World Bank and regional development banks, could be used to serve U.S. interests—not as tools for assuring national security by providing resources to the Third World, but as guarantors of American economic interests (see Babb 2009: 89-96). Finally, the Consensus was made possible by the Third World debt crisis, which had put developing countries in a notably poor bargaining position with respect to both wealthy industrialized countries and IFIs. This made it possible to argue in Washington that policy-based loans were actually producing reforms—and not, as Congressional conservatives had often argued previously, going “down a rathole” (Babb 2009: 133-35).

The Influence of the Washington Consensus

The Washington Consensus was not an academic theory but a policy paradigm—a hybrid product of both political and scholarly forces. It combined a set of prescriptions for developing country government that resonated with the state of economics scholarship of the day with a separate, politically-negotiated set of prescriptions for IFIs. The dual nature of the Washington

Consensus helps explain why it was so successful in shaping the policies of national governments around the world. Institutional scholar in organizational sociology² argue that organizations—including states, private firms, and international organizations—can be seen as actors with their own interests, but that they do not pursue these interests under circumstances of their own choosing because they are subject to pressures from their environments. In the language of institutional sociology, the dual nature of the Consensus gave it two vectors of institutional pressure through which to push governments toward more market-friendly policies—one normative, and the other coercive.

Among the most powerful norms in modern societies is the reliance on science and other forms of expert knowledge (Larson 1977; Abbott 1988; Scott and Meyer 1994; Boli and Thomas 1997). When certified experts in a particular area support or oppose a policy related to their expertise, it makes some options seem more legitimate and others less so. Under some circumstances, this may affect the policies that get adopted. Some researchers suggest that this is particularly true in moments of crisis, when political actors may use expert knowledge as a resource in contests for political power. For example, Blyth (2002) shows how British and later Swedish conservatives were able to capitalize on the intellectual decline of Keynesianism to their own political advantage. Of course, conservatives selected *among* expert ideas for those most favorable to their political program (see Prasad 2006). Yet the overall tenor of the discipline of economics at that time—an era when Keynesianism had been eclipsed by monetarism, supply-side, and rational-expectations theory—was also helpful to the cause of particular political interests.

The state of academic economics at any given historical moment can have an important effect on the world of policy by granting intellectual legitimacy to some policy paradigms and delegitimizing others. At the same time, the normative force of scholarly economics has become more transnationally homogeneous over time. Over the course of the 20th century, economics grew into an international discipline, increasingly based on the universal language of mathematics, and with growing recognition of American leadership within the discipline (see Coats (ed.) 1996; Fourcade 2009). During the post-World War II decades, this increasingly transnational field of economic expertise helped enable developing-country experiments with interventionist economic policies, such as state ownership of strategic industries and protection of domestic industries from foreign competition. The subfield of development economics, which was generally supportive of statist developing policies in poor countries, thrived in Keynesian intellectual environment that prevailed at that time (Hirschman 1981). Over time, however, it moved increasingly farther away from neoclassical assumptions—even as the discipline as a whole was coming to embrace them again (see Lal 2000). Unable to adapt to the growing mathematization of the discipline, disempowered by the decline of Keynesianism, and increasingly attacked by mainstream economists, development economics was clearly in decline by the 1970s (Hirschman 1981, Krugman 2006).

These events in the world of scholarship provided the context for a new set of conventional wisdoms about development. As Williamson pointed out at the end of the 1980s,

² I am referring both to classical institutional theory and the “new institutionalism.” For examples of classical institutionalism, see Michels (1959), Gouldner (1954), Selznick (1949), and Messinger (1955). For seminal statements of the new institutionalism, see DiMaggio and Powell (1983) and Meyer and Rowan (1977).

“A striking fact about the list of policies on which Washington does have a collective view is that they all stem from classical mainstream economic theory...None of the ideas spawned by the development [economics] literature—such as the big push, balanced or unbalanced growth, surplus labor, or even the two-gap model—plays any essential role in motivating the Washington Consensus...” (Williamson 1990b: 19). These trends also shaped the views of some experts and policymakers in developing countries. Declaring the “triumph of neoclassical economics” in the developing world, Bierstecker (1992) noted that in the late 1970s and early 1980s, a number of internationally influential publications had leveled powerful critiques against statist development policies. This undoubtedly made it more difficult for governments to justify such policies, particularly in places where economic crises—hyperinflation, stagnant growth, and so on—pointed to their apparent failure.

It seems indisputable that the Washington Consensus was influential, at least in part, because it resonated with the state of scholarly knowledge at that time. Yet norms are not the only institutions structuring the activities of states: under some circumstances, their policies may be shaped by rules imposed by external organizations. In the past, such rules were often imposed through simple force—military occupation, colonialism, and so on. In more recent decades, it has been more common for states to follow rules imposed through the softer mechanism of resource dependence. This dynamic, long familiar to organizational sociologists, is referred to by DiMaggio and Powell (1983) as “coercive isomorphism” (*see also* Michels 1959, Pfeffer and Salancik 1977).

The conditional lending policies associated with the Washington Consensus represented a clear example of such coercive isomorphism—at least in theory. Receiving governments signed contract-like documents called “letters of intent” to IFIs, outlining the total amount of the loan, the repayment schedule, and a series of policy commitments or “performance criteria.” To ensure that borrowers did not renege on their commitments, letters of intent also specified payment installments 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 (*see* Dreher 2002; Babb and Carruthers 2008). The required policies included measures to stabilize national currencies, to keep countries servicing their debts, and to open economies to market forces and foreign investment.

Although conditionality was designed to impose rules to make national governments reform their policies, it is important to acknowledge that the effectiveness of these conditions varied. Today there is an enormous literature on the failures of conditionality to change borrower behavior (Easterly 2001, 2006; Adam 2004, Svensson 2003, Collier 2005). On the other hand, there is an equally extensive empirical literature documenting the overall impact of conditionality on both policies and long-term economic performance (Bird 2001, Barro and Lee 2002, Vreeland 2003, Dreher 2006; Kilby 2005; Henisz, Zelner, and Guillen 2005; Polillo and Guillen 2005).

The most reasonable conclusion to draw from these apparently contradictory findings is that Washington Consensus conditionality changed borrower policies in the aggregate, but that its effectiveness was uneven. Compliance with conditions has been observed to depend on the respective bargaining power of IFI and government officials. For example, strategic allies of the United States have been observed to receive lighter punishments for noncompliance than less important borrowers (Stone 2002, Dreher and Jensen 2007).

Conversely, compliance is more likely when IFIs serve as gatekeepers to governments’ access to the resources of powerful third parties, such as portfolio investors, private banks, and

other international organizations. The IMF is particularly famous for playing this gatekeeping role. Starting with the Third World debt crisis of the 1980s, private banks agreed to use the IMF as the central coordinator of their claims: developing countries could not negotiate with banks directly, but needed first to enter lending arrangements with the IMF (Cline 1995, pp. 205-8). Even in the absence of such formal agreements between the Fund and private creditors, the IMF has been observed to perform “signaling” function to private lenders and international investors, providing a material incentive to enter into IMF agreements and comply with them (Bird 2001: 1857; Brune, Garrett and Kogut 2004). This has led some to describe the IMF as the leader of a global “creditors’ cartel” (see Buira 2003; Weisbrot 2007). The IFIs’ also act as gatekeepers to one another’s resources: as described above, the Baker Plan pressed IFIs to engage in co-ordinated lending or “cross-conditionality”: compliance was rewarded by money from more than one lender—and non-compliance was similarly punished by multiple lenders cutting off access to funds (Dell. 1988).

However, this gatekeeping function is more effective under some circumstances than others. As former Federal Reserve Chairman Paul Volcker once observed, “when the [IMF] consults with a poor and weak country, the country gets in line. When it consults with a big and strong country, the Fund gets into line” (Volcker quoted in Buira 2003: 59). Paradoxically, it also is likely that the governments of certain extremely poor countries would be less likely to worry about the consequences of breaking promises to IFIs because they had little access to private capital to begin with ; this turned out to be particularly true of Sub-Saharan African countries in the 1980s and 1990s (see Bird 2001: 1853).

Another factor observed to impact the effectiveness of IFI conditionality is the relative influence of “sympathetic interlocutors”—technocrats with graduate degrees in economics from U.S. and British universities, fluent in English, and often with experience working in IFIs. Both case studies and some quantitative data suggest that when these individuals were in top decision-making positions, the market-liberalizing conditions of IFIs were not only likely to be met, but sometimes even exceeded (see Stallings 1992, Babb 2001, Woods 2006: 72-6). The type of technocrat likely to exceed IFI expectations is not equally available in all countries. Latin America, where many governments had invested heavily in scholarship programs to study in the United States and England, was positively awash with them (see Dominguez (ed.) 1997). By contrast, Sub-Saharan Africa had far fewer technocrats available to play this role.

The part played by sympathetic interlocutors in the success of IFI conditionality suggests that the roles of transnational norms and externally-imposed rules were often deeply intertwined and difficult to disentangle. Although conditionality seems to have been most successful in places where market-liberalizing ideas had local allies, this does not necessarily constitute evidence of the overall persuasiveness of these ideas. The bearers of American-style economic expertise were frequently not elected officials, but technocrats appointed to interact with IFIs and other powerful external actors at a time of international crisis: their ability to make policy decisions was itself a reflection of external pressures (Markoff and Montecinos 1993; Centeno 1994; Babb 2001). The policy preferences of U.S.-trained technocrats in developing-country were not necessarily shared by the population as a whole, or even within their own governments (see Buira 2003; Buiter 2005). In some places, candidates elected on entirely different sorts of platforms surprised national voters by implementing Washington Consensus reforms (see Stokes 2001).

The Decline of the Consensus

Policy paradigms can be distinguished from other sorts of policy ideas by their ability to survive changes in government. Keynesianism, for example, was endorsed not only by the Democratic administrations of the post-World War II era, but also by Eisenhower and Nixon. The same can be said of the Washington Consensus. Although the Baker plan failed in its mission to resolve the Third World debt crisis, the basic elements of Baker's policy prescriptions for IFIs survived into the George H.W. Bush and even Clinton administrations (see Babb 2009: 135-55).

Yet the Consensus did not survive into the new millennium unscathed. Fewer than a dozen years after Williamson's original observations, the editor of *Foreign Policy* was observing that debates were breaking out among development experts, and that "confusion among the leading lights of development thinking has even spilled over from scholarly seminars to television shows and from the pages of technical journals to those of daily newspapers" (Naím 2000: 506).

The decline of the Washington Consensus can be traced most fundamentally to the unexpected dynamics unleashed by its second element—the delivery through IFI conditionality. Throughout the 20th century, and around the world, economists had been providing advice to policymakers. Never before, however, had the advice of economists been distilled into such a uniform model for economic success, disseminated by such powerful organizations, and to so many governments across the globe. Placing the IFIs in charge of structurally reforming national economies had three unintended consequences. The first was what critics soon complained was a "boilerplate" approach to the problems of developing countries, in which the same recipe was prescribed for all countries, 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 programs for action—programs that may or may not be appropriate to the problem at hand (March et al. 1993: 177).

The second unintended consequence was mission creep (Einhorn 2001; Babb and Buira 2005). Now that international lenders were in the business of promoting appropriate policies, they became vulnerable to both normative and political pressures to expand their activities. The list of reforms promoted under the original Consensus—trade liberalization, privatization, etc.—was steadily expanded to new areas, such as strengthening legal systems and alleviating poverty. In the last year of the Clinton administration, *Foreign Policy* editor and economist Moisés Naím observed that the ideas guiding economic reforms in developing countries were "as faddish as skirt lengths and tie widths." Governments that had implemented liberalizing reforms in the 1980s discovered that "the policy goals that just a few years, or even months, earlier had been specified as the final frontier of the reform process [had become]... a mere precondition for success. New, more complex, and more difficult goals were constantly added to the list of requirements for an acceptable performance" (Naím 2000: 506).

Perhaps most controversially, the IMF began to promote capital account liberalization--the removal of government controls on the speculative movement of capital in and out of a country. Opposed by many economists, this policy was neither in the original Baker plan, nor on the original list of "consensus" policies. For some observers, the IMF's promotion of capital account liberalization responded to pressures from the U.S. Treasury, itself under the influence of Wall Street (see Wade and Veneroso 2004 [1998]). For others, it arose from the particular intellectual slant of economists within the IMF (see Abdelal 2007, Chwieroth 2010). Whether it was shareholder pressures, scholarly ideas, or both, however, the IMF's foray into capital

account liberalization would have been impossible in the pre-Washington Consensus era, when structural policies were not considered to be the IMF's concern.

The third, most devastating, unintended consequence of IFI conditionality for structural reform was that it made the IFIs and their policy paradigm highly vulnerable to disconfirmation. This extent of this vulnerability was new in IFI history. In the postwar era, the IMF had been in the business of stabilizing currencies, and the development banks in the business of lending for projects, such as highways and dams. Although many developing-country clients complained about the harshness of the Fund's postwar austerity measures, the stability of the Bretton Woods system overall ensured the IMF's legitimacy. Meanwhile, although few World Bank clients succeeded in "developing" in the sense of actually catching up to the industrialized world, managers could nevertheless boast that impressive, technically-sophisticated projects were regularly completed. In contrast, under the Washington Consensus, IFIs were put in charge of persuading governments to make politically difficult and painful structural reforms—with the promise that short-term pain would ultimately be justified by "sustained growth." This created an unprecedented, global natural experiment on the effectiveness of liberal policies in developing countries, the results of which could be easily observed and measured.

This made it possible for evidence to accumulate that appeared to disconfirm the Consensus. In Latin America, where Washington-inspired reforms had been widespread, economic growth was mostly failing to materialize. A series of devastating financial crises—in Mexico, East Asia, Russia and Argentina—suggested to some that following Washington's prescriptions made countries more rather than less vulnerable to financial turbulence (Weisbrot 2007; Stiglitz 2008). The increasingly apparent economic success of countries that had clearly not followed much of Washington's advice, such as China and Vietnam, was also a blow (see Rodrik 2006).

In scientific paradigms, disconfirming evidence initially causes scientific communities to create "epicycles"—various qualifications to the conventional wisdom that help maintain the paradigm in place; over time, it causes a revolutionary break with the old paradigm and the rise of an entirely new one. However, unlike the natural sciences—biology, chemistry, and so on—social sciences are not structured around *scientific* paradigms in Kuhn's original sense: social scientists have much deeper theoretical and methodological disagreements than do natural scientists (Blaug 1975). Consequently, when the Washington Consensus encountered disconfirming evidence, it was interpreted very differently by different economists, whose ideas were drawn on selectively by political actors. Three distinct interpretations became important in Washington.

The first interpretation was what we might consider to be the "establishment" position endorsed by the World Bank, the U.S. Treasury, and think tanks close to the U.S. Treasury such as the Institute for International Economics (IIE). In this view, the Washington Consensus had been 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. Originally introduced by the World Bank, the "good governance" idea had immediate appeal in Washington and among the IFIs' other major shareholders. With U.S. support and encouragement, governance reforms—to bankruptcy laws, courts, etc.—became a standard element of IFI conditionality (see Kapur and Webb 2000). Good governance—and its opposite, "crony capitalism"—became the central interpretative framework the Treasury used to explain what had gone wrong in the Asian Financial Crisis (see Rubin in U.S. House 1998: 15). Governance went on to become one of the two major innovations of a new, "augmented" version

of the Washington Consensus (also known as the “post-Washington Consensus” or “second generation reforms”) and an expansion of IFI conditionality. The other innovation was to add protecting the poor to conditionality’s steadily expanding list of objectives. This addition responded to the efforts of NGOs and social movements that were able to mobilize sympathetic members of Congress to withhold appropriations from IFIs until they took the issue of poverty more seriously (Babb 2009: 160-69). As a consequence, by the end of the 1990s, IFI borrowers were asked to implement an exceptionally long list of policies that simultaneously included market-liberalizing reforms, governance reforms, and “pro-poor” measures (see Naím 2000, Babb and Buira 2005).

A second interpretation of the evidence, associated with the public positions of Columbia University economist Joseph Stiglitz, was inspired by information-theoretic economics. A leading representative of this theoretical approach, Stiglitz was appointed chief researcher at the World Bank in the late 1990s, at a time when the Bank needed research to help account for the apparent failures of the IFIs’ policy prescriptions. Unexpectedly, Stiglitz used his position to launch a critique of the IMF’s handling of the Asian Financial Crisis. The Treasury pressured the Bank to force Stiglitz to resign, which he did shortly before winning the Nobel Prize in economics in 2001 (see Stiglitz 2002, Gopinath 2000, Wade 2002). He continued his public criticisms from his tenured position at Columbia University, and soon thereafter published an international best-seller that excoriated the IMF and the Washington Consensus for their “market fundamentalism.” Many of his arguments were framed in information-theoretic language: markets functioned imperfectly in the absence of perfect information, and were particularly imperfect in developing countries. Blinded by market fundamentalist ideology, Stiglitz argued, the IMF had worsened the problems of developing countries (Stiglitz 2002).

A third 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. As Tom Sheehy of the Heritage Foundation argued to Congress in 1994, the structural adjustment loans of the World Bank and IMF were “largely jokes” that were “commonly disregarded amongst the recipient countries. The donors pretend the countries abide by them” (Sheehy in U.S. House 1994: 553). Although the reality was indisputably far more mixed (as I argue above), this view resonated deeply with the anti-aid, anti-multilateralist tendencies of many Republicans in Congress.

The appearance and flourishing of these divergent interpretations ultimately caused the World Bank and U.S. Treasury to lose control of the debate. This was evident in two public and highly-politicized controversies around World Bank research that damaged its carefully-cultivated appearance of political neutrality. The first was Stiglitz’s public critique of the IMF, which generated a furious rebuttal from U.S. Deputy Treasury Secretary Larry Summers--an MIT-trained economist with strong scholarly credentials who had played a major role in managing the crisis. A second episode occurred around the content of the 2000 *World Development Report*, “Attacking Poverty,” in which pressures from the Treasury over the content of the report caused a second World Bank economist, Ravi Kanbur, to resign in protest (Wade 2002).

The release of the highly-influential Meltzer Report was unwelcome to the World Bank and the U.S. Treasury, and was also evidence that the debate was raging out of control. The report had been chartered by Congress as a condition for a major increase in the IMF’s resources requested by the Clinton administration (Congressional Quarterly Almanac 1998: 2-54). Chaired

by Republican-appointed economist Allan Meltzer, the bipartisan Meltzer Commission had ten additional members: five appointed by Congressional Republicans and five by Congressional Democrats. Echoing the charge from the right that conditionality was a failure, the report found that IFIs suffered from “[H]igh cost and low effectiveness,” and noted the particularly high rate of failure in Africa. Among its recommendations were that the IMF stop conditioning its loans long-term policy reforms and instead specialize in short-term loans to countries in crisis that had met specific pre-conditions. As for the World Bank and its regional counterparts, the commission recommended that they “be transformed from capital-intensive lenders to sources of technical assistance, providers of regional and global public goods, and facilitators of an increased flow of private sector resources to the emerging countries.” Wealthier developing countries and those with access to private capital markets would not be eligible for development bank resources. In the poorest countries, the banks they would replace project loans with grants. These countries could also receive loans for “institutional reforms,” which unlike traditional Washington Consensus loans would be proposed by the borrowing government (to promote country “ownership”), and reviewed by independent auditors. In line with the concerns of anti-poverty NGOs and their allies in Congress, the report argued for a complete write-off of the debt poorest countries owed to IFIs, as well as a major increase in U.S. development aid (International Financial Institution Advisory Commission 2000).

To summarize thus far, three unintended consequences of the Washington Consensus—boilerplate conditionality, mission creep, and vulnerability to disconfirming evidence—contributed to a breakdown of consensus in Washington. Yet just as importantly, they also contributed to a widespread rejection of IFI conditionality among an emergent group of more powerful developing countries and their allies. The rejection of conditionality was directed most forcefully at the IMF. The IMF is the most likely of the IFIs to impose unwelcome advice, since it serves as a gatekeeper to private financing, and arrives only in times of crisis, when governments are desperate to forestall further economic damage.(Feldstein 1998). The IMF’s response to financial crises of the 1990s, particularly the Asian Financial Crisis of 1997-98, was instrumental in convincing many governments and their constituents that IFI conditionality was best avoided. The Fund was blamed by Stiglitz and other economists for prescribing “boilerplate” policies that actually worsened the Asian crisis, including its classical austerity measures, and the removal of capital controls (Sachs 1998; Feldstein 1998; Stiglitz 2002; Weisbrot 2007). Several years later, Argentina—once considered a leading Washington success story—suffered a severe currency crisis that the IMF similarly appeared to exacerbate. Argentina suspended its lending arrangement to the Fund and ultimately defaulted on its private debt and even temporarily to the IMF. After less than a year of economic distress, Argentina began a robust recovery. Argentina’s experience suggested to many observers that it was both possible and desirable to flout the IMF’s advice (*see* Weisbrot 2007).

Today, 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 were always relatively autonomous from IFI advice. For example, China and India each had only two brief lending arrangements with the IMF in the 1980s and 90s, and have since stayed away. Other governments, such as Brazil, Russia, Bolivia, Ecuador, and Argentina, which were once repeat IMF clients have been avoiding the IMF and relying on other sources of balance-of-payments support. Rather than accumulating debts and allowing their currencies to become overvalued--a recipe for falling into the hands of the IMF--many countries have followed China’s lead in accumulating large reserves of hard currency. Some paid off their debts to the IMF with great

public fanfare (Buirra 2005; Bello and Guttal 2005). Under the Chiang Mai Initiative, Asian governments pooled the resources of 13 of their central banks to create an alternative to borrowing from the IMF. In Latin America, a Bank of the South was founded with Venezuelan oil revenues, with the explicit goal of creating an alternative to the IMF (Lerrick 2007). 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: the last time a nation from this region received a Fund lending arrangement was 2001.

Table 1: IMF Lending Arrangements: 1986-1996, 1997-2003, 2004-2009

Region	1986-1996			1997-2003			2004-2009	
	No. Lending Arrangements	Pct. Total		No. Lending Arrangements	Pct. Total		No. Lending Arrangements	Pct. Total
Central Asia	9	3.01		3	2.29		5	5.38
East/Southeast Asia	14	4.68		10	7.63		0	0
Eastern/Central Europe	55	18.39		27	20.61		22	23.65
Latin America/Caribbean	60	20.07		35	26.72		16	17.20
Middle East/North Africa	20	6.69		5	3.82		3	3.23
South Asia	14	4.68		7	5.34		3	3.23
Sub-Saharan Africa	127	42.47		44	33.59		43	46.24
Western Europe	0	0		0	0		1	1.07
Total	299	100		131	100		93	100

Source: IMF Annual Reports: Various Years.

The World Bank and regional development banks, although less forcefully rejected than the IMF, also began to lose middle-income customers. As one recent World Bank report noted, middle-income borrowers have been “increasingly selective about the [policy-conditional lending] areas in which they invite Bank engagement” (World Bank 2009: 16). It seems very likely that when these types of governments do invite World Bank engagement on policy, the conditions tend to be in line with the governments’ own preferences. In some cases, this may mean they are subjected to easier conditions than governments with less bargaining power. For example, environmental NGOs have recently expressed concern about the laxness of the conditions attached to a recent World Bank environmental developmental policy loan to Brazil (McElhinny 9/9/09).

Not surprisingly, the BRICs and other governments that have moved out of the orbit of the IFIs are also notable for their explicit rejection of the Washington Consensus. They have rediscovered some of the themes of postwar Third World economic nationalism, including placing conditions on foreign investment, the invigoration of national development bank financing for domestic industries, and even re-nationalization of previously privatized industries (Mortimore and Stanley 2010). These trends, along with the intellectual decline of the old paradigm, have caused another think tank economist, Joshua Ramo, to declare that the Washington Consensus is being replaced by a new “Beijing Consensus”—a more flexible approach to economic development that “does not believe in uniform solutions for every situation. It is defined by a ruthless willingness to innovate and experiment, by a lively defense of national borders and interests, and by the increasingly thoughtful accumulation of tools of asymmetric power projection” (Ramo 2004: 4).

A Paradigm Shift?

The cascade of financial crises and national economic recessions that began in 2008 accelerated the widespread rethinking of conventional wisdoms regarding economic policy. In response to these events, British Prime Minister Gordon Brown announced at a meeting of the G-20 that “the old Washington consensus is over” (Weisman and Macdonald 4/9/09).

There is no question that the paradigm has evolved significantly from its original 1980s incarnation. However, a closer examination of recent trends suggests that reports of the demise of the Washington Consensus may be premature. On the one hand, there have been significant changes in both the rhetoric and the research output of IFIs. On the other hand, the core *practice* of the Washington Consensus—market-liberalizing conditionality—may have changed more modestly, and may even be more effective than previously in changing the behavior of the governments to which it is applied.

In the years since the heyday of the Consensus, the prescriptions of development experts have become more ecumenical and less certain about the benefits of unfettered markets. As Joseph Stiglitz recently put it, today there is “no consensus except that the Washington Consensus did not provide the answer” (Stiglitz 2008: 41). Or as Harvard economist Dani Rodrik observes, “[t]he 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). If development scholarship today accommodates a range of development recipes, economists more generally seem to be looking harder at the defects of unfettered markets than they were 20 years ago (*see* Fine 2002, Fine, Lapavistas and Pincus 2001). It seems likely that these intellectual trends were produced, in part, out of the experiences IFIs had with market-liberalizing conditionality in the 1980s and 1990s.

Such trends in the world of economics scholarship, in turn, have consequences for the IFIs’ rhetorical and intellectual output, since academic economics sets the range of intellectually legitimate debate for organizations that depend on the profession for its legitimacy. This is undoubtedly at least partly responsible for significant changes in the IFIs’ intellectual approach. In 2001, a World Bank report acknowledged that “the development paradigm was shifting and the bank risked losing its leadership role” (World Bank quoted in Weaver 2008: 145). Four years later, another report generated widespread attention for its acknowledgment that “there is no unique universal set of rules,” and called for humility and respect for diversity in the prescription of development policies (Nankani foreword in World Bank 2005: xii). In 2008, the World 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 that fail to take local conditions into account (Batson, 2/29/08).

Recent intellectual changes at the IMF have perhaps been even more notable. The Fund partially disavowed its previously militant stance toward eliminating inflation, and called for fiscal stimulus to forestall global economic recession and a global tax on private banks to insure against future crises. In 2010, the Fund even acknowledged that capital controls could under some circumstances be beneficial for national economies—although a subsequent report seemed to contradict this stance. The same year, the Fund appointed Zhu Min, a former vice president of the Chinese central bank, as a special advisor to Managing Director Dominique Strauss-Kahn (The Economist 2/20/2010).

The IFIs are shaped by academic economics, from which they derive legitimacy, but they are also subject to political pressures from states. Over the decades, the wealthy

shareholders—particularly the U.S., Great Britain, Germany, France, and Japan--have used a range of tools to press for change in the IFIs, with Washington in the lead. However, more recently a group of developing countries has become powerful enough to have a growing influence. The BRICs, along with other similarly-situated medium-income countries, are insulated from IFI conditionality by their large currency reserves and even (in the case of China) their possession of a large stock of U.S. government debt. Only a few years ago, the defection of these countries was having a devastating impact on a key source of IFI revenue: “reflows,” or the interest earned on loans to their most profitable clients. The IMF was enmeshed in an unprecedented financial crisis of its own, and was even forced to downsize its staff (Lerrick 2007). The World Bank and regional development banks were fighting to restore a dwindling client base for their “hard loan” windows, which charge profitable interest rates to middle-income borrowers (Lerrick 2006). More recent developments—the global economic crisis and subsequent renewal of shareholder commitment to IFI financing—have put these organizations on much firmer financial footing. But the BRICs and similarly well-positioned countries continue to boycott the IMF and to engage with the World Bank on their own terms. They have emerged as an economic as well as a geopolitical force, and are using the recently-established G20 to make their views known.

These countries have been increasingly insistent in calling for a more democratic IFI voting structure—one not dominated by the United States and the G-7 (see Buira (ed.) 2005). In response, both the World Bank and IMF have adopted changes in their voting structure in recent years. Most dramatically, in late 2010 the IMF Board of Directors passed a revision its quota structure to bring India, Russia, China and Brazil into its top ten shareholders, with China allocated the third-largest voting share. As this article is being written, it remains to be seen whether this decision will be vetted by national legislatures (as it must be for there to be changes in the Fund’s Articles of Agreement). Yet even if it passes, there are powerful countervailing pressures that continue to stand in the way of major reforms. Both organizations remain dominated by the wealthy industrialized countries, and both preserve both the U.S. “veto” over major policy changes. The shareholders who currently control these institutions are understandably reluctant to relinquish it—and the thorny Congressional politics involved in U.S. IFI policy make challenging U.S. dominance difficult to contemplate (Bretton Woods Project 2008, 2010a, 2010b).

Compared to the difficulties of governance reforms, it is relatively easy for IFIs to mollify the developing-country governments of the G-20 through making changes in rhetoric, personnel, and even policy. It is likely, for example, that the appointment of Chinese officials to the prominent managerial positions mentioned above represents a response to the demands of an important client. There have also been changes in the conditional lending practices that may also be responding, at least in part, to pressures from the more powerful developing-country clients. Dogged by controversy, the World Bank steadily decreased 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.” In 2009, the IMF announced the establishment of a Flexible Credit Line to provide condition-free financing for borrowers meeting specific preconditions. That same year, the Fund renounced the use of structural “performance criteria”—the market-liberalizing conditions that were at the heart of the Fund’s participation in the Washington Consensus (IMF 2010).

Yet there are good reasons to doubt whether the IFIs’ significant shift away from Washington Consensus rhetoric has been matched by changes in practice. These organizations

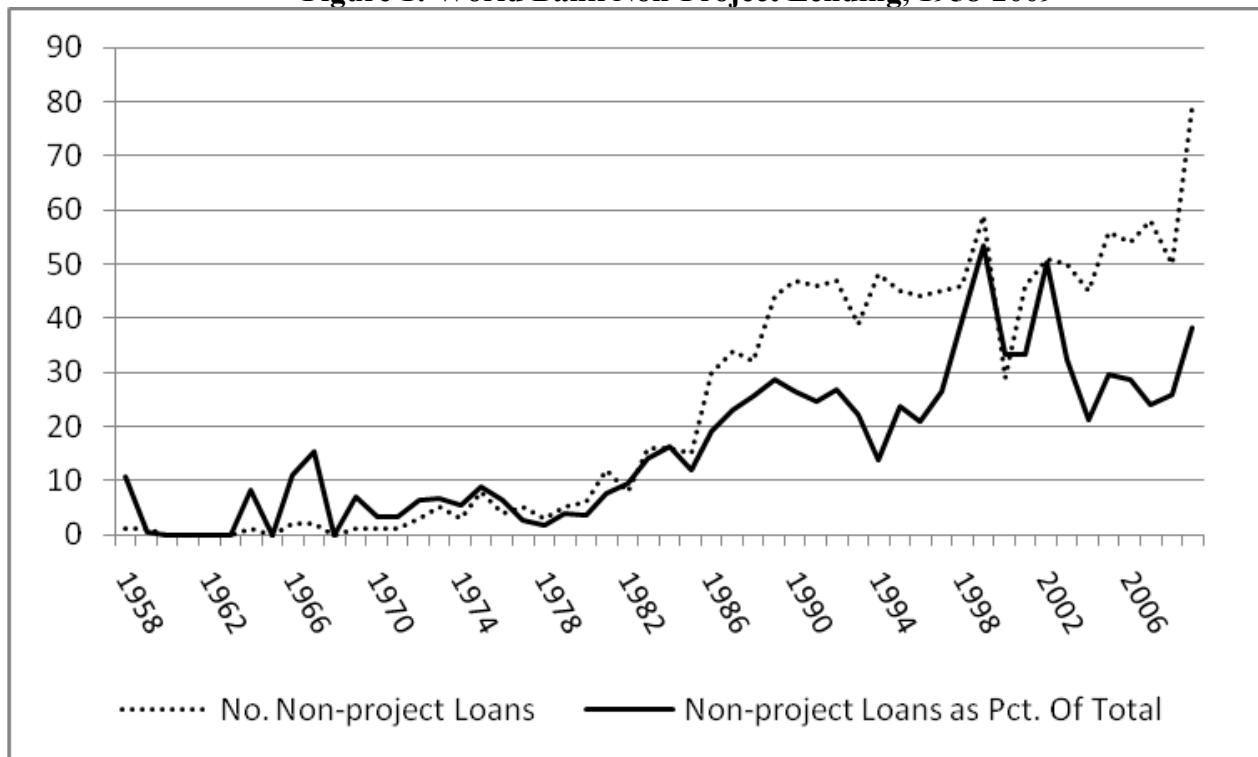
are subject to multiple, often conflicting pressures from their environments. For example, whereas they need to move into line with an economics profession that is more skeptical of market-liberalizing development recipes, they might also be subjected to pressures from leading shareholder governments to press borrowers to liberalize their economies. Under such difficult circumstances, organizations have a range of adaptive strategies, including “loose coupling”—delinking organizational subunits (e.g., research versus lending operations) to satisfy the conflicting demands from their environments (Weick 1976; Meyer and Rowan 1977; *see* Weaver 2008 for an excellent account of these dynamics in the World Bank).

As an example of such adaptive strategies, one might observe that although the IMF’s Flexible Credit Line appears to satisfy the critics of conditionality, it is actually used only for exceptional countries under exceptional circumstances; the majority of lending arrangements are still conditional. The Fund has eliminated performance criteria—conditions established at the outset of a loan, and used as the basis for ongoing disbursements—for the *structural* reforms associated with the Washington Consensus, such as privatization and liberalization. However, it has maintained its performance criteria for traditional *macroeconomic* reforms, and remains committed to cracking down on government deficits and inflation (Muchhala 2010; Jubilee USA Network 2010).

More importantly for the purposes of this paper, although the IMF has stopped promoting structural reforms through performance criteria, it is still able to use two other vehicles of conditionality called “structural benchmarks” and “prior actions” to as means to the same ends. Prior actions are policy reforms that countries must implement *before* receiving IMF resources (in contrast to performance criteria, which establish policy goals to be met after disbursements begin). Structural benchmarks are incremental, non-quantifiable policy commitments that often take the form of incremental steps toward structural reforms, such as sending a privatization bill to Congress. For example, the 2010 Letter of Intent from the Greece commits that government to a series of benchmarks for privatizing state-owned industries, aimed at “reduc[ing] state intervention in the real economy” and “improv[ing] market efficiency” (Greece 2010: 18).

Within the World Bank, there are also reasons to believe that the reality has lagged behind the rhetoric. Although the term “structural adjustment” has been banished to the past, “Development Policy Loans”—the Bank’s new term for policy-based lending—continue to make up more than 30 percent of their total portfolio, and have recently jumped to over 50 percent 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, 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 Washington Consensus predecessors—kinder, gentler, country-owned, and protective of the poor (World Bank 2005, 2009). It is true that the goals of these loans have expanded beyond market liberalization—for example, they include more elements designed to help poor people directly, more governance or institutional reforms (such as modernizing bankruptcy laws), and environmental policy conditions. However, NGOs charge that poorer countries with more fragile economies and less access to private capital are still being subjected to traditional market-liberalizing conditionality (*see* EUODAD 3/2010). Recent World Bank reports suggest that traditional Washington Consensus reforms have come to make up a smaller percentage of the loan and grant conditions, but the data are presented in such a way that it is difficult to evaluate this claim (*see* World Bank 2009).

Figure 1: World Bank Non-Project Lending, 1958-2009



Source: World Bank 2010.

Moreover, one of the most significant changes in the practice of conditionality over the past decade has been its increased effectiveness—whether it is aimed at protecting the poor, saving the environment, or freeing markets. The heyday of the Washington Consensus was associated with what is known as “ex post” conditionality: a government would make promises, performance criteria would be established, and money would be disbursed in installments based on promises of future behavior. As we discussed earlier, some governments—most notably in Sub-Saharan Africa—became notorious for breaking these promises. This led conservative think tanks and Congressional Republicans to charge that conditionality was ineffective.

Partly in response to these criticisms, IFIs are increasingly using “ex ante,” or “performance-based” conditionality, in which resources are only disbursed *after* policy changes have been made, making it difficult if not impossible to fail to comply (*see* Babb and Carruthers 2008). Ex ante conditionality was strongly endorsed by the Meltzer Commission and the George W. Bush administration, and was pressed by the U.S. during negotiations for the replenishment of the resources of the World Bank and regional development banks (Babb 2009: 196-203). It is also popular among other leading donor governments, such as those of the European Union (Adam 2004). The IMF’s increased use of prior actions represents a form of ex ante conditionality, as does its Flexible Credit Line, since it allows the Fund to reward governments for having previously adopted what it deems to be good policies. Today, the World Bank regularly rates countries for the quality of their policies under the Country Policy and Institutional Assessment (CPIA) rating system, and allocates resources according to country scores (*see* Morrow in World Bank 2005). The Bank also increasingly favors “single-tranche”

operations, in which countries implement reforms and are only subsequently rewarded with loans or grants (World Bank 2009).

As a technology for changing borrower behavior, ante conditionality is undoubtedly more effective than the ex post variety. It both ensures compliance and is less likely to generate political resistance: it allows IFIs to incentivize particular kinds of policies, including unpopular ones, without actually having a publicly controversial agreement with a government. Ex ante conditionality is sometimes being used to promote Washington-Consensus style reforms among low-income borrowers. For example, the Bank's CPIA scoring system, which is used as a basis for allocating resources to poor countries, places considerable weight on market-liberalizing reforms, a policy that has attracted criticism from progressive think tanks and NGOs (Bretton Woods Project 2/15/2010; see also EURODAD 3/2010).

In summary, pressures from the world of scholarship and the world of politics have continued to transform the Washington Consensus, but have not yet overthrown it. Although there have been notable changes in IFI rhetoric and research output, and improvements in the technology of conditionality, IFIs are still using conditional lending to promote market-liberalizing reforms. This widening gap between rhetoric and reality has enormous potential to be exploited by critics, which suggests that we can expect to see more changes in the near future.

The End of Consensus

This paper has argued that the power of the Washington Consensus lay in its dual nature—a credible appeal to expert knowledge combined with a mechanism for enforcing compliance. If the Washington Consensus has diminished over the past 10 years, what is likely to replace it?

Thus far, the evidence suggests that there is no single alternative paradigm arising to replace the Washington Consensus. Given what we know about what the original Consensus was, this should not surprise us. Unlike paradigms in the natural sciences, policy paradigms are embedded in a more heterogeneous and volatile array of institutions: social sciences, whose practitioners may disagree quite vehemently; and bureaucratic organizations struggling to adapt to changing material and political circumstances. Under these circumstances, it may be that the development of a paradigm in any particular area of policy should be viewed as an exceptionally rare occurrence—and the development of a transnational paradigm even rarer.

The prospects for a replacement for the Washington Consensus are doubtful, in part, because of the fragmented intellectual environment around issues of economic development, which makes the construction of a legitimate new paradigm extremely difficult. Political fragmentation magnifies these difficulties exponentially. Any unified vision of IFIs' role in developing countries has 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 deep political divisions within Washington.

Meanwhile, there are signs of the emergence of a system of global economic governance that is largely non-paradigmatic in nature. A growing number of transnational rules are made without bothering to consult the authority of experts. These include an expanding number of bilateral and regional trade agreements that simply reflect the interests and relative power of the negotiating parties. For example, U.S. bilateral trade and investment agreements with poor countries continue to require that countries eliminate capital controls—not because economists consider this to be sound policy (after all, even the IMF has repudiated capital account

liberalization), but simply because it is the preferred option of the more powerful negotiator (Gallagher 2010). Another example of a non-paradigmatic system of rules can be seen in the World Trade Organization, which derives legitimacy not from economics scholarship, but rather from the diplomatic procedures through which its rules are agreed to (Chorev and Babb 2009). The rules associated with the so-called Beijing Consensus, too, are more pragmatic than paradigmatic (Ramo 2004).

Yet if the rules national governments follow are less likely to be attached to the advice of economists, economics scholarship remains a powerful normative force structuring the activities of governments around the world. In fact, one of the most enduring legacies of the debt crisis and the Washington Consensus was to internationalize local economics professions in developing countries by creating a demand for interlocutors to engage with IFIs and other international actors. Once in high government positions, internationally-trained technocrats could both help Americanize systems of higher education and make jobs for similarly-trained subordinates, thereby creating material incentives to study economics abroad (*see* Babb 2001). 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 Ph.D.s, and to return to academic jobs or important government positions in their home countries (*see* Montecinos and Markoff (eds.) 2009). If the policy advice that these economists bring home is neither unanimous nor unqualified enough to constitute a paradigm, perhaps it is all to the good.

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