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Washington Consensus Phase II?

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The mantra of US agricultural trade policy has been market access – the willingness to forego a significant amount of subsidies in exchange for lowered agricultural product trade barriers in developing countries. One of the assumptions that underlies the rationale to make this deal is that trade liberalization, accompanied by other changes, will reduce poverty and thus increase purchasing power in developing countries, providing growing markets for US agricultural products.

Under this scenario, US farmers have a significant stake in the development process in low and medium income countries around the world. Over a number of years, responding to the international economic crises of the late 1970s, institutions like the International Monetary Fund (IMF), the World Bank (WB), and the US Treasury (UST) began to develop a set of common policies intended to help developing countries recover from the then current crisis and become more prosperous.

In 1989 John Williamson summarized these commonly held policies into a series of ten recommendations that he called the Washington consensus – all three institutions had major offices in Washington, DC. Over the next decade and a half, the Washington consensus was used as a prescription that identified the conditions that would be imposed on a country in crisis before the three institutions would make development money available to them.

In a July article in "Economists' Voice" (www.bepress.com/ev), Dani Rodrik, an economist at Harvard University's John F. Kennedy School of Government, argues that the Spence Report (http://www.growthcommission.org/index.php?option=com_content&task=view&id=96&Itemid=169) "christens a new Washington consensus."

Rodrik writes, "The Spence report reflects a broader intellectual shift within the development profession, a shift that encompasses not just growth strategies but also health, education, and other social policies. The traditional policy framework, which the new thinking is gradually replacing, is presumptive rather than diagnostic."

The presumptive approach of the Washington consensus is what those of the older generation would call a "father knows best" strategy. The father, in this case the IMF, WB, and the UST, "starts with strong presumptions about the nature of the problem....[and imposes a] 'laundry list' of reforms and emphasizes their complementary nature – the imperative to undertake them all simultaneously – rather than their sequencing and prioritization. It is biased toward universal recipes."

Early in the process the emphasis was on trade "liberalization, deregulation, privatization, and free markets." While those stipulations have not been set aside, more recently issues of governance have received considerable attention with similar requirements being imposed on all countries that borrow from these institutions.

As reasonable as this set of prescriptions may seem, there is a problem. It hasn't worked all that well.

Rodrik says, "The recipe failed to generate much growth in countries in Latin America and Africa which adopted the reforms." At the same time the recipe "flies in the face of the empirical record on how successful countries achieved high growth: India, China, Vietnam and many other countries before them became growth superstars" while ignoring the father-knows-best recipe.

Rodrik characterizes the Spence Report as taking a diagnostic approach. He writes, " Its hypothesis is that there is a great deal of 'slack' in poor countries, so simple changes can make a big difference. As a result it is explicitly diagnostic and focuses on the most significant bottlenecks and constraints. Rather than comprehensive reform, it emphasizes policy experimentation and relatively narrowly targeted initiatives in order to discover local solutions, and it calls for monitoring and evaluation in order to learn which experiments work."

He concludes, "It is to Spence's credit that the report manages to avoid both market fundamentalism and institutionalism. Rather than offering facile answers such as "just let markets work" or "just get governance right," it rightly emphasizes that each country must devise its own mix of remedies. Foreign economists and aid agencies can supply some of the ingredients, but only the country itself can provide the recipe.

"If there is a new Washington consensus, it is that the rulebook must be written at home, not in Washington. And that is real progress."

By extension, Rodrik's analysis of the Spence Report may also cast doubt on the cookie-cutter, one-size-fits-all approach of the WTO negotiations to achieve its goals of simultaneously spurring growth in developing countries and regions, ranging from Africa to Brazil to China, while expanding access to agricultural markets for developed countries. ∆