new leaf or fig leaf ?

the challenge of the new washington consensus

by BRENDAN MARTIN

Preface

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Over the last few years civil society work on the World Bank has been complicated by deliberate efforts of the Bank to co-opt critical groups, and by changes in Bank policy and practice. This briefing aims to illuminate and discuss the key elements of the Bank's intellectual and policy repositioning, by focussing on the speeches of Joe Stiglitz, the Bank's vocal Chief Economist from 1997 to early 2000.

The Bretton Woods Project has discussed Stiglitz's work at the Bank with many people and found a wide range of reactions. The head of a Washington NGO, for example, wrote last October asking "did you read Stiglitz's speech on trade? I'm in love." By contrast South African civil society groups who met Stiglitz in January 1999 wrote that "we heard nothing from him to suggest that we can now expect the Bank to shift to a more people-centred approach".

Chief Economists of the World Bank have little direct influence on World Bank projects or day to day policy advice. However, they are vital in setting the Bank's overall position and in guiding the Bank's extensive and growing work as a 'knowledge' provider and global think-tank. Many other agencies and ministries follow the Bank's lead on economic analysis and development strategies, and many journalists and researchers take it very seriously.

The Bank is still dominated by economists. Whilst people from other disciplines have been hired they remain relatively low in the Bank's pecking order. How often do you see a news story based on the World Bank's top environmental or labour expert making a keynote speech?

Many Bank-watchers now think there is more space for discussion, and some more openness to diverse views, yet the Bank's conceptual and operational models still exclude many vital points which civil society groups emphasize. This is due to the Bank's deference to the US and other rich country governments, and because so many Bank staff think alike, having studied neoclassical economics at US or UK universities. Also, as Nick Stern, just appointed as Stiglitz's successor, cautioned "[World Bank] researchers are not free to follow intellectual inspiration ... and the atmosphere is much more deferential than one would find in universities. There is an understandable concern with what superiors will think of their conclusions" (The World Bank: Its First Half Century, Brookings Institution, 1997).

Brendan Martin's 1993 book and other writings have cogently and thoughtfully captured how neoliberal economic policies were imposed across the world. The Bretton Woods Project and Public Services International asked him to provide his perspective on Stiglitz's contribution to moving the Bank away from its orthodox Washington Consensus policy menu, and how groups working to monitor and change the Bank should react. This briefing captures the key arguments Stiglitz made from his platform at the Bank, provides quotes and arguments which people may want to use in their work, and puts them in historical and analytical context. He concludes by warning that Stiglitz does not tackle the politics of globalization, economic concentration and environmental change.

This line of work was inspired in particular by Professor Ben Fine and colleagues at the School of Oriental and African Studies, London University through their papers and lecture series on the Post-Washington Consensus. These will soon be published by Routledge as a book later this year (Development in the 21st Century) which will cover the theory of economics of information, new institutional economics, social capital, human capital and privatization in more detail.

Comments were received on an initial draft of this report from Ben Fine, Mike Edwards, Navroz Dubash, Gordon Betcherman, Filomeno Sta Ana, Steve Commins and John Mawbey. It has been great to work with Mike Waghorne at Public Services International. As this briefing aims to stimulate discussion we are keen to get feedback from readers.

Alex Wilks
Bretton Woods Project
March 2000.

1. The rise and fall of the Washington Consensus

The pride of the Washington Consensus

During the last two decades—a period bisected by the collapse of the European and central Asian 'communist' regimes and command economies—a body of public policy based on neo-classical economics achieved a virtual hegemony. Fuelled by failures and crises associated with state-dominated and state-directed approaches to economic and social development, the simple propositions at the basis of the Anglo-Saxon tradition of economics coincided with the immediate interests of international and, especially, United States capital. This occurred during a period of economic globalization, a process which both drove the course of policy making and was further driven by it.

The mission was to unleash the hidden hand of market forces all over the globe, sweeping away frontiers to the movement of natural resources, products, services and finance—everything, indeed, except people, to whom it was supposed to bring unprecedented prosperity. Paradoxically, however, that invisible hand was directed by more visible ones—those of the CIA-backed Chilean dictator General Augusto Pinochet initially, of US President Ronald Reagan and British Prime Minister Margaret Thatcher more obviously, and of many a foot soldier most importantly. Among Pinochet's soldiers were the 'Chicago Boys', the group of US-trained economists to whom he delegated policy following the 1973 military coup which overthrew the elected government of Salvador Allende and unleashed a reign of terror. On a global scale, graduates from the same training camps—economics departments of, mainly, American universities—were enlisted in two of the most powerful policy enforcement armies in the world today, the International Monetary Fund (IMF) and the World Bank.

Many were to rise to high ranks, not only in Santiago but also in Washington, where the World Bank and IMF go about their business under the watchful eyes of the White House, the US Treasury Department, Congress and a plethora of think tanks financed by American big business. Taking advantage of the financial disarmament of governments besieged by debts, deficits and adverse international terms of trade, the World Bank and IMF waged their determined campaigns throughout the global south, and later also in central and eastern Europe and the former Soviet Union. Their weapons were loans; their leverage, the terms—'conditionalities'—on which they dispensed dollars, and the resulting debts to themselves.

Victory after victory was notched up—in Latin America, Africa, Asia, then Europe—and the flag of the new orthodoxy, flying ever more proudly over Wall Street, was to flutter too above many a presidential palace. The fervour of its missionaries was in many cases heightened by their sincere belief that the policies they espoused, if applied consistently and courageously, would benefit the poor as well as the rich. Their creed came to be known as the 'Washington Consensus'.

The shame of the Washington Consensus

News of fresh conquests and of the triumph of rising wealth spread quickly; of reverses, and of deteriorating health among the colonized, more slowly. In the second half of the 1990s, however, many problems could no longer be concealed. Unfettered rapid transnational capital movements threatened to collapse not only national economies but also the global financial system, weakening the capacity of states and of markets. The growing needs of the excluded menaced the growing advantages of the included; the viability of the globe itself could not be reconciled with the viability of unrestrained globalization. The Washington Consensus, so long under attack from outside, began to fall apart within.

It was a sure sign of these changing times when Harvard economics professor Jeffrey Sachs, hitherto closely associated with the 'shock therapy' that had ruined Russia, and even demonized as its architect, pronounced in 1998:

> The collapse of the emerging markets and its ricochet effect on advanced economies may not be the end of globalization. But it is certainly the end of an era. Since the miraculously peaceful fall of communism, Washington has aspired to stage-manage the transition to global capitalism. America, in concert with Europe and Japan, would ensure security and arrange deals on world trade and regional stability; the International Monetary Fund would do the financial plumbing, to connect Russia, Africa, Latin America and South Asia, back to the world economy. This approach is rapidly

collapsing.[1]

The IMF and "the institutions that it co-ordinated (the World Bank, the regional development banks, the Paris Club of creditors) have proved technically ill-equipped for the challenge," Sachs went on, but "at a deeper level, the problem is one of basic approach. America has wanted global leadership on the cheap. It was desperate for the developing world and post-communist economies to buy into its vision, in which globalization, private capital flows and Washington advice would overcome the obstacles to shared prosperity, so that pressures on the rich countries to do more for the poorer countries could be contained by the dream of universal economic growth."

Enter Joseph E. Stiglitz

The consensus may have broken, but Washington remains. There, over the past two or three years, a new consensus has begun to emerge, its labour pains indistinguishable from the death agonies of its predecessor. The Bretton Woods institutions are attempting to respond to the increasingly convincing, organized and determined campaigns of representative and advocacy organizations concerned with social, labour and environmental issues in 'development'. The loose alliance of those organizations had been exposing the effects of the Washington Consensus on the world's poor and environment for 20 years.

More recently, pressure for a new orientation has come not only from outside but also from many of the World Bank's own foot soldiers, who found their honest attempts to promote inclusive economic growth frustrated at every turn by the IMF's strictures. The lessons of experience, for those who chose to learn them, found a high-powered voice, and a theoretical articulation, after Professor Joseph E. Stiglitz, late of Stanford, Princeton, Yale and Oxford universities, took over in 1997 as the World Bank's Chief Economist and Senior-Vice-President.

Fresh from the chair of the US Council of Economic Advisers, Stiglitz had made his name by helping to create a whole new branch of economics—'The Economics of Information'. From this body of theory he began to mount trenchant arguments about the limits to the applicability of the neo-liberal nostrums he confronted at the World Bank. This background has informed the critique and alternative vision he has been articulating since then about the goals and processes of 'development'. It also shapes the terms in which he does so: Stiglitz simultaneously asserts the limitations of economics and justifies doing so in terms of arguments based on the same theoretical foundations.

Exit Stiglitz

On June 3, 1999, a little over two years after his appointment—two years in which he toured the world giving paper after lecture after presentation—Reuters news agency claimed that "slowly but surely, international financial policymakers are coming around to some of the once-heretical thinking of World Bank chief economist Joseph Stiglitz". Before the end of that year, however, Stiglitz announced he was leaving the Bank, three months before his (renewable) contract was due to expire. Had he completed his mission? Or had Reuters declared his victory prematurely?

Whether Joseph Stiglitz was pushed or jumped has been the subject of much speculation. His predecessor as World Bank Chief Economist, Larry Summers, by then Clinton's Treasury Secretary, was said by some to have encouraged World Bank President James Wolfensohn to believe that the latter's second five-year term of office—confirmed soon afterwards—might go more smoothly with Stiglitz out of the way. It is not the purpose of this briefing to fuel this intrigue, and we lack the information with which to resolve it. Suffice to say that Wolfensohn, having appointed Stiglitz and implicitly and explicitly supported him through a series of controversies, publicly rebuked his Chief Economist for the first time in late 1999 soon after the latter had made a speech denouncing the mess the IMF had made of Russia. One way or another, it was time for Joe Stiglitz to go. But what has he left behind?

After the Washington Consensus

Despite his departure, it is noticeable that public policy declarations from the World Bank and IMF, and the mechanisms through which the institutions seek to effect their policies, increasingly appear to have adapted to the Stiglitz line. For example, after half a century of existing determinedly as anything but a development institution, at the 1999 annual meetings of the Bretton Woods institutions the IMF redefined its goal—or, at least, its outgoing managing director Michel Camdessus redefined it—as poverty reduction, hitherto the declared mission (though far from the actual effect) of the World Bank. The IMF and the World Bank have also marked an intention to cooperate more effectively by instituting a new joint lending framework, called the Poverty Reduction Strategy Paper, targeted at the world's poorest

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countries; and the IMF itself replaced (or, at least, renamed) the Enhanced Structural Adjustment Facility (ESAF) with the Poverty Reduction and Growth Facility (PRGF).

The details of such announcements are better covered by others.[2] For the purposes of this briefing, the trend is important, and there are rival explanations for it. One is that Stiglitz has served his purpose. His heresy enabled the Bretton Woods institutions to give the impression of having shifted from being a US puppet to becoming more truly intergovernmental, while his martyrdom allows them to carry on much as before. Another is that Stiglitz did indeed complete his mission: the Bretton Woods institutions are now going to emphasize sustainability, democracy and equity alongside economic growth, as he recommends.

A third possibility is that both those points of view are partly, but neither entirely, right. The so-called Post-Washington Consensus, which I prefer to call the New Washington Consensus (even though it is not yet a consensus), is indeed significantly different from its predecessor, but shares its underlying purpose and much of its essential methodology. It departs from the simple propositions of liberal economics, and yet builds its case on their foundations. It goes beyond the macro-economic measures associated with the 'Washington Consensus', yet incorporates them too. It retains the goal of shaping the world into a system of globally integrated capitalism, de facto dominated by the United States and transnational business, but urges local 'ownership'. It has learned from the experience of the 'Washington Consensus' that the market and private business are not enough to secure the world for integrated capitalism: national states must actively help and ways must be found to embed the global system in local societies and cultures.

The purpose of this booklet is to explore the issues involved in the policy reorientation, such that it is, and discuss their significance. While some of the written words of Joseph Stiglitz during his time at the Bank form the basis of the booklet, its point is not to make a general assessment of the value of his thinking (a task that is anyway beyond the present author's expertise). It focuses on Stiglitz because, as World Bank Chief Economist, he became Washington's spokesperson-in-chief for the strategic shift that now appears to be underway. For our purposes, his controversial pronouncements are a vehicle from which to explore the meaning and significance of the new centrist perspectives with which he has so publicly associated himself. Despite his departure, despite the vitriol dumped on him by jealous rivals, and despite the fact that many of his former colleagues, in both the World Bank and the IMF, continue to lag behind, the approach outlined by Stiglitz stands as a challenge not only to them but also to their critics. It is becoming the new orthodoxy.

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2. What was the 'Washington Consensus'?

The term 'Washington Consensus' was first coined by John Williamson, then of the Institute for International Economics, and now a senior economist at the World Bank. Writing in 1989, Williamson identified a package of ten policy instruments viewed by the US government and the international financial institutions based in the US capital as necessary elements of 'first stage policy reform' (see box below).

The term 'Washington Consensus' was no sooner coined than challenged, on the grounds that 'consensus' suggested more agreement than actually existed about those measures.[3] But it survived as shorthand for the neo-liberal policies adopted by many governments, in many cases as a result of IMF-World Bank tutelage or instruction. According to The Economist: "The patients span the globe from Vietnam to Venezuela. The doctors face each other across 19th Street in Washington and dispense their medicine together. Their remedies, dubbed the Washington Consensus, include tight fiscal and monetary policies, freer trade and capital flows, and privatization."[4] The Financial Times focuses more on the purpose than the mechanism, describing the Washington Consensus as "a shorthand label for the official orthodoxy of the IMF and most of the members of the Group of Seven leading industrial countries, above all the US", and commenting that "at its heart is an emphasis on the importance of macro-economic stability and integration into the international economy".[5]

That FT condensation was written, following Stiglitz's resignation, in the context of his attack on the Washington Consensus. Yet Stiglitz has no argument with the need for "macro-economic stability and integration into the international economy". On the contrary, his critique is based in large part on the failure of the Washington Consensus to achieve those twin goals. His argument concerns how they and other objectives can be achieved, and he rejects the capacity of neo-liberal doctrine to do it.

So, indeed, does the inventor of the term 'Washington Consensus'. In a response to a paper by one of the original 'Chicago Boys', Williamson cuts through his own detail with a much simplified version of what the Washington Consensus was about. According to José Piñera, who earned his spurs as one of Pinochet's economic technocrats before being appointed successively the junta's minister of labour and social security (in which role he privatized the country's pension arrangements), the Chilean team were less preoccupied than had been widely assumed with the monetarist prescriptions espoused by Chicago University professor Milton Friedman. What really united them, Piñera explained, was that they shared the more basic tenets outlined in Paul Samuelson's

The 10 Elements of the Washington Consensus[1]

Fiscal Discipline: *strict criteria for limiting budget deficits;*

Public Expenditure Priorities: *away from subsidies and administration towards 'neglected fields with high economic returns and the potential to improve income distribution, such as primary health and education, and infrastructure';*

Tax Reform: *broadening the tax base and cutting marginal tax rates;*

Financial Liberalization: *interest rates should ideally be market-determined;*

Exchange Rates: *should be managed to induce rapid growth in non-traditional exports;*

Trade Liberalization: *tariffs not quotas, and declining tariffs to around 10 per cent within 10 years;*

Foreign Direct Investment: *no barriers and 'equality' with domestic firms;*

Privatization: *state enterprises should be privatized;*

Deregulation: *abolition of 'regulations that impede the entry of new firms or restrict competition', and establishing 'such criteria as safety, environmental protection, or prudential supervision of financial institutions' as the means to justify those which remain;*

Property Rights: *secure rights without excessive costs and available to the informal sector.*

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textbook Economics, which was a first year staple in all US university economics departments. While many of them had indeed studied in Chicago, because of its association with Santiago's Universidad Católica, they could have—and some of them did—absorb the same lessons at any institution "where the great tradition of Anglo-Saxon economics was taught".[6]

"We simply applied the basic laws of supply and demand, of an open economy, of the efficiency of competition and free enterprise," says Piñera, a version which suggests that rather than being a detailed doctrine, the economic policies applied with such brutal ruthlessness in Chile were the product of a kind of economics fundamentalism. Williamson comments: "Or, one might say, they implemented the Washington Consensus long before the concept was conceived or (mis)named."[7] For the later Williamson, therefore, the essential characteristic of the 'Washington Consensus' was belief in the universal applicability in all circumstances of these abstract 'laws' of economics, to the extent that all other areas of both public policy and academic discipline are subordinated, or entirely squeezed out.

Yet Williamson goes on to say that Chile went too far (an impossibility, according to the fundamentalist definition). In Chile, unchecked by resistance from a violently suppressed political process and civil society, the essential method was indeed able to pursue its logical trajectory. Piñera recalls how determined they were to commodify everything. The labour market, he boasts, was treated no differently than any other; trades unions he dismisses as "self-proclaimed Robin Hoods" (and Pinochet's torturers certainly dealt with them in a manner that might have made the Sheriff of Nottingham blanche). Piñera adds: "I and others on the team wanted to go further and extend the discipline of the market to the social sector: the pension system, health care, education, and the rest. We foresaw that leaving these activities in the hands of the state would only increase its power as the economy became wealthier, undoing much of what we had so far accomplished towards shortening the state's tether. We therefore argued, if private enterprise and the market are good for producing steel, should they not also be good at producing pensions."[8]

Williamson notes that "in retrospect" it became clear that Pinochet's technocrats "allowed dogma to get the better of them in certain respects", especially by deregulating banks—resulting in risky loans—and freezing the exchange rate when the economy demanded more flexibility. Those errors, Williamson writes, "made Chile extremely vulnerable when the debt crisis broke", with the result that "in 1983, GDP fell by some 15 per cent and real wages by something on the order of 35 per cent."[9]

According to the simplest definition, then, the Washington Consensus was demonstrably failing even before the term was invented. Moreover, Williamson admits that the ten measures in his more detailed definition have not been uniformly applied in practice. The 'Washington Consensus' has been variously characterized, even by the same people, as:

- unalloyed application of the basic laws of Anglo-Saxon classical economics;
- a list of specific policy measures held to be consistent with those laws;
- a shorter list of the main policy measures aimed at facilitating globalization; and
- that aim itself—stable and globally integrated capitalism.

This is one reason why the New Washington Consensus can best be seen as both a departure from and a development of the Washington Consensus. The writings of Stiglitz himself confirm that conclusion.

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3. What is the New Washington Consensus?

Williamson's observations about Chile are a reminder that application of extreme neo-classical doctrine was failing in its own economic terms, as well as in other respects, two decades ago, some time before Stiglitz supposedly committed heresy by citing later catastrophes in support of his argument. By the late 1990s, therefore, it was hardly contentious anywhere outside Washington to point out, as Stiglitz did, that the Consensus was a "set of policy recommendations ... certainly not sufficient for development" and that it "all too often confused means with ends".

According to Stiglitz, the Washington Consensus "took privatization and trade liberalization as ends in themselves, rather than as means to more sustainable, equitable, and democratic growth".[10] Its failure had been demonstrated, not only in the negative impact experienced by countries which had followed it, but also in the fact that "some of the most successful developers had paid little heed to its dictums". Stiglitz identifies three 'defining events' as proof of the failure, namely:

- the trajectory of post-communist countries from one extreme to the other—over-reliance on markets replacing over-reliance on the state, and likewise failing to enable development;
- the growing evidence that adherence to the Washington Consensus prescriptions produce 'dual economies'—enabling enrichment of a few but failing to transform the lives of the many;
- the 'east Asian miracle' was accomplished not by following the Washington Consensus prescriptions but by departing from them in certain decisive ways.

Beyond dogma

While defending some fundamental aspects of the Washington Consensus, Stiglitz says he is setting out a new agenda in which specific country characteristics must be factored in. He insists: "There is no room in this agenda for dogma or for doctrinaire approaches. The general consensus on basic economic reforms—keep inflation to a moderate level, limit the size of the fiscal deficit, avoid introducing large distortions in the economy, open the economy to foreign competition—addresses issues of fundamental importance and has made substantial contributions to stabilization in several countries. There is a danger that this Consensus has become dogma and, as dogma, it may sometimes be applied inappropriately."[11]

Russia offers one of the prime examples. "The failures of the reforms in Russia and most of the former Soviet Union are not due to sound policies being poorly implemented," he insists, directly opposing the IMF explanation. "I argue that the failures go deeper to a misunderstanding of the foundations of a market economy as well as a misunderstanding of the basics of an institutional reform process. Reform models based on conventional neo-classical economics are bound to under-estimate the untoward consequences of informational problems, opportunistic behaviour, and human fallibility—consequences we now plainly see."[12]

He suggests that, while failing to take such factors into account in the design of reform programmes, advocates of neo-classical solutions are quick enough to attribute failure precisely to those factors. "One variation on this theme is to blame the failure of the shock therapy reforms on corruption and rent-seeking at every turn, without recognizing any role of the institutional blitzkrieg in destroying but not replacing the old social norms—and thus in removing the last restraints against society-threatening levels of corruption," he writes. "This is like using a flame-thrower to burn off an old coat of house paint, and then lamenting that you couldn't finish the new paint job because the house burned down."[13]

Redefining 'development' and its goals

Stiglitz's alternative vision starts from a redefinition of the goals of 'development'. In doing this, he explicitly distances himself not only from the recent World Bank policy of "reliance on market mechanisms" but also from its predecessor "planning approach". Whatever their differences about how best to improve the efficiency of resource allocations and increase investment levels, his predecessors as World Bank Chief Economist had agreed that those were the core goals of development. Defining the basic terms of his opposition to them, Stiglitz states:

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> Since then we have come to see these perspectives as too narrow: they may be necessary conditions (and even that has been questioned), but they are far from sufficient. We now realize ... it may be possible to raise productivity and even change mindsets within an enclave of the economy without achieving a true development transformation of the society as a whole.[14]

To achieve this societal transformation', Stiglitz focuses on three dimensions of development which, he argues, must be ranked alongside that of the World Bank's previous goal of growth. These are democracy, sustainability and equity, but although he insists they must be objectives in their own right, his arguments for them also rest heavily on their role in promoting the Bank's traditional goals. For example, he argues: "Financial regulations that ensure the safety and soundness of banking institutions not only help mobilize capital, by giving depositors more confidence in the banking system, they also help ensure the efficient allocation of investment."[15]

Similarly, while arguing that development involves more than economics, much of his argument rests on the need to overcome 'market failures', particularly those caused by imbalances in the information available to different actors. An example of this is consumers buying expensive or dangerous products because they have too little time to shop around or because companies fail to provide accurate and complete labelling.

He also emphasizes the interaction between the democracy, sustainability and equity dimensions. Democratic processes contribute to a 'sense of community', for example, which both serves and is served by combating inequalities, which in turn makes change sustainable.[16] In the rest of this section, we shall look more closely at these interrelated dimensions of his vision of development, and the arguments Stiglitz advances for them.

The roles of governments

On the relationship between democracy and development Stiglitz examines the roles of government, of wider collective and individual participation in decision-making, and of public services. Rehabilitation of the role of government in economic development is perhaps the most obvious respect in which his approach marks a significant departure from the Washington Consensus. He dismisses as 'simplistic' the view that 'government is part of the problem' and "should simply get out of the way, liberalize trade, and get the prices right" and "development would follow".[17]

Whilst insisting that governments should encourage foreign direct investment, they need greater powers to regulate short-term capital flows, Stiglitz argues, identifying IMF-enforced financial market liberalization as a source of macro-economic instability. He also argues for targeted support for particular areas of industrial development, including support for small and medium-sized enterprises. He notes that government aids the development of market economies in that it: "either helps provide infrastructure or provides a regulatory structure that ensures the private provision of infrastructure at reasonable prices"; "often plays a vital role in developing and transmitting technology, such as through agricultural extension services"; and "can help promote equality and alleviate poverty".[18]

In each of these areas, "the rationale for government action can be found in the theory of market failure." In other words the market by itself cannot adequately provide these crucial bases for economic activity.

In that and many other instances, Stiglitz seeks to integrate his new vision with the old whilst also emphasizing distinctions between them. So, for example, far from proposing reversal of trends towards expansion of global trade, Stiglitz argues that one typically overlooked advantage of freer international trade is its role in knowledge transfer. However, unlike pure neo-classical economists, he places greater value on trade in some goods and services than in others, noting that, while traditional economics has been disinterested in whether a producer is making potato chips or micro chips, a key difference is that production and trade in the latter contributes more to knowledge transfer and growth.

Public services and regulation

In keeping with his rehabilitation of governmental roles in development, Stiglitz attaches great importance to developing well-designed institutions and public services, though not necessarily publicly-delivered. "We know that for societies to function, the State must provide a certain basic minimal level of services, and that it takes resources to provide those services," he writes. "In all societies, taxes are collected only because governments enforce tax laws, through the right to seize property in the event of a failure to comply. Russia, and the other countries, must show a

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resolve to enforce the tax laws and to provide the basic services of the State."[19]

In addition to acknowledging the need for investment in public services, Stiglitz insists on more efficient deployment of those resources. "Understanding the incentives that govern the implementation of public policy, the delivery of public services, and public management in general, will be the key to future development," he writes.[20] He offers no general prescription regarding those sectors of public service which should be delivered by private business, on the grounds that factors determining this, such as technological development and competitive capacity, vary over time and place. However, he is prescriptive about what he sees as the beneficial role of market mechanisms in public service delivery, believing these to be key means to create positive incentives.

Regulatory mechanisms should be designed to promote competition and limit monopoly abuse, says Stiglitz, pointing out that if government monopolies are turned into private monopolies before trade liberalization and effective competition law are in place, neither the immediate consumer nor the wider economy benefit. He is scathing about attempts to justify privatization as an end in itself on the basis of economic theory. "Theory may predicate that under certain idealized circumstances market economies are efficient," he comments. "But theory provides less clear prescriptions for the inevitable second best situations in which many of the idealized circumstances underlying the pure theory are not satisfied. And theory gives even less clear guidance on sequencing: how to get from here to there. For these decisions, experience and judgement—as well as perhaps the guidance that comes from a careful consideration of cross-country experiences—must be relied on."[21]

Acknowledging that rapid privatization in the former 'communist' countries was based in part on the need not to delay until effective regulatory institutions were constructed, Stiglitz points out the possibilities for participatory processes to exact more immediate forms of social control. "The promise of quick economic transformation based on voucher privatization with investment funds has proven illusory," he insists. "I argue for an alternative present strategy of decentralization to push economic decision-making down to the level where the stakeholders can protect their own interests without presupposing elaborate legal machinery that will take much longer to evolve."[22]

In this and other contexts, Stiglitz emphasizes the need to maintain and develop 'social capital', the destruction of which he cites as one of the main reasons for the failure of the Washington Consensus approach in Russia.[23] Consequently, the importance Stiglitz attaches to democratic processes and institutions in development goes beyond the role of elections, government and state to other forms of enabling people to participate fully in shaping their environments and making decisions which affect their lives, at all levels from capital markets, through national and local government, to the workplace. This will produce better and more sustainable results, especially in the context of the 'knowledge economy', where top-down hierarchies to enforce rigidly imposed production targets are giving way to structures which enable the transfer, mobilization and continuous development of knowledge.

Again, his argument is founded on the interaction of various elements and on adaptation of particular areas of orthodox economic theory. "The stress on processes is a natural outgrowth not only of the increasing emphasis on equity, but also of our greater recognition of agency problems," he writes. "That is to say, we now recognize the great importance of potential discrepancies between the actions taken by a party (the government, for example) and the interests of those that the party is supposed to serve."[24] So, for examples, countries in which votes can be bought or where media ownership and control are too concentrated are not only inequitable and insufficiently democratic but are also unable to sustain economic growth.

Different facets of sustainability

Stiglitz believes his approach is more likely to produce environmental sustainability also, although he expresses disagreement with some aspects of the 'green' agenda, especially the arguments which aim to inhibit international trade. He has more to say about the political sustainability of reforms, and links this to his rejection of the World Bank culture and practice of enforcing its will through conditionalities attached to loans. External imposition cannot change 'mindsets', he argues, and, by way of example, refers to India:

> India's economic reforms of the past decade were not

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> imposed from the outside, but were adopted from within, and in a way that has engendered broad support on the basic tenets. As a result, most of the key reforms have been sustained, even as governments have changed. More generally, when a society adopts reforms after a process of consensus-building, the political debate can move on to other issues—such as the next steps in reform—without feeling a continuous need to revisit prior decisions. By contrast, when there is a perception that the reforms were imposed from outside, the reforms themselves become the subject of political debate, lessening their sustainability.[25]

There is also a sustainability aspect to Stiglitz's concern about equity, since part of his argument here is that inequity tends to undermine the necessary political and social environment in which growth can continue. "There is likely to be greater acceptance of reforms—and a greater participation in the transformation process—if there is a sense of equity, of fairness, about the development process, a sense of ownership derived from participation, and if there has been an effort at consensus formation."[26]

The goal should not be only the reduction or amelioration of poverty, says Stiglitz, but its 'elimination', and he notes: "Where higher incomes are used for military aggression, the enrichment of a small ruling class, or the oppression of the population at large, growth is clearly seen as socially harmful. Strategies that exhibit these characteristics usually contain the seeds of their own destruction."[27] Acceptance of and commitment to change by the population as a whole demands equitable sharing of the benefits and sacrifices associated with change, he insists.

Beyond trickle-down

Stiglitz agrees that, in reality, markets do not behave in accordance with the classical economics textbooks. Thus, while market forces produce concentration of wealth and economic power within national economies, those imbalances themselves distort the market and must, therefore, be consciously countered. Implicitly rejecting the excuse made for growing inequalities within the Washington Consensus—the notion of 'trickle down', which holds that development paths which enrich those at the top are in the long-term interests of the rest—he advocates redistributive taxation, and especially inheritance taxation.[28]

He also challenges one of the major avenues by which transnational corporations are consolidating and extending their hold on the world's resources by arguing that global protection of 'intellectual property rights'—as distinct from property rights generally—has gone too far.[29] This threatens to undermine the knowledge and technology transfer vital for development in the knowledge economy, he argues, reversing what has become the standard rationale.

Stiglitz applies his democracy, sustainability and equity arguments not only to society generally but also to the firm. He upholds full employment as a legitimate development goal and argues in favour of the rights of workers and their unions to participate in decision making, not only about remuneration but also on matters affecting their wider immediate interests, such as health and safety, and longer term interests, such as employment security. As well as being right in principle, active involvement of workers and their organizations promotes efficiency, he argues, but information imbalances can prevent employers from acting in their collective self-interest in this regard, and so there is a role also for legislation.[30]

In relation to public workers in particular, Stiglitz stresses that "the quality of a government's bureaucracy depends on the composition and quality of its workforce", and that "low wages and a mismatch between rewards and results discourage output and result in low performance".[31]

A further challenge to previously prevailing orthodoxy comes in his observation that the increase in private capital flows to 'developing' countries does not justify the fact that development aid has reached a 50-year low as a proportion of GDP. Private inward investment, he points out, has been concentrated on a few countries and has failed to reach sectors such as health care and education. So the World Bank's role remains vital. But, Stiglitz notes, "whether we like it or not, whether it is justified or not, there is now in much of the world a legacy of suspicion and doubt" about the quality of the Bank's assistance.

"Opponents see in development conditionality an echo of the colonial bonds that their countries threw off only one or two generations ago," he points out, adding that "while conditionality is at least widely perceived to have undermined transparency and participation, there is little evidence that it has achieved much in terms of better policies."[32] The Bank, like governments, should involve civil society in designing development strategy, he argues, and imposed conditionalities are incompatible with such a

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participatory approach.

4. What is the difference?

How different, then are Stiglitz's positions from the Washington Consensus analysis explored in Section 2? It is clear that Stiglitz rejects the idea that all that needs to be done is to let the basic laws of Anglo-Saxon economics guide public policy. Since that extreme approach is now promoted only by a few ideologues as blinkered as the Chilean dictatorship was brutal, this hardly marks Stiglitz out. Indeed, reading his more scathing remarks, it is tempting to believe that he is setting up a straw man to knock down—except that when you look at what has actually been done in Russia and other places it is apparent that there are still quite a few such straw men with multimillion dollar budgets in the Bretton Woods institutions.

If we consider the Stiglitz critique in relation to the ten-point Williamson list (see box on page ?), his position is less clear cut, but there is clearly a change of emphasis and context. He does not oppose in principle any of the ten points—indeed, he emphasizes his attachment to some of them—but he does reject a dogmatic approach to any or all of them. He insists they be seen as means rather than ends and pursued and sequenced in the context of wider government action and civil society participation to demonstrate and achieve sustainability, equity and democracy as well as growth. Therefore, he is rejecting as insufficient at best the short-hand version of those points which has come to be the received definition of the 'Washington Consensus'—"tight fiscal and monetary policies, freer trade and capital flows, and privatization," as The Economist puts it.

Transforming societies, integrating economies

However, if what were erroneously treated as ends are now being rehabilitated as means, the question is: means to what end? The answer Stiglitz offers is that development must mean "transformation of society as a whole", but this really only rephrases the question. Transformation into what? Stiglitz addresses this in the following way: "In calling for a transformation of societies, I have elided a central issue: transformation to what kind of society, and for what ends? Further, some have worried that development will destroy traditional values. In some cases, there will be a clash between science and traditional beliefs. But development today often focuses on the preservation of cultural values, partly because these values serve as a cohesive force at a time when many other such forces are weakening. Maintaining social organization and enhancing social capital are part of the key to successful development transformations. Moreover, it is important to note that much of the progress that is associated with successful development—the mothers who do not have to see their children die in infancy, who see the opening of minds to new knowledge and the increased opportunities—these reflect almost universally held values. But there is a further reason that I believe in openness, especially openness in process: these contribute to a more open, democratic society. For me, these are values in their own right."[33]

These are revealing points—and we shall return to some of them—but they leave the 'elided' question elided, a fact underlined rather than disguised by the uncharacteristic platitudes and generalities into which Stiglitz lapses rather than answer his own question. If we receive no help on this from what Stiglitz says perhaps we must look to what he does not say—and in doing so, let us take a leaf out of his book and consider his position in the the cultural context which produced him and the 'social capital' of which he is part—the economics departments of US universities and the Washington technocracy.

The fact is that the universal benefits of globally integrated capitalism are as much a given in the Stiglitz perspective as they are in José Piñera's—hence his insistence on the need to "open the economy to foreign competition". But whereas Piñera maintains that global capitalism is the natural order of things which the simple laws of Anglo-Saxon economics will deliver so long as no political or social force is enabled to impede them, Stiglitz implicitly recognizes that capitalism is a political and social construct and must be built through political and social action. For Piñera, if we give his sincerity the benefit of the doubt, sustainability, equity and democracy will be the long-term products of market liberalism; for Stiglitz, whose sincerity is not in doubt, the four dimensions must proceed together or none of them can proceed at all.

Now, most of us would agree that societies need to be transformed, and not only in the 'developing' world (indeed, less so there, perhaps, in some respects, than in capitalism's heartlands). Most of us, if put on

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the spot and asked to define the ideal society, would doubtless also resort to generalities and platitudes. But some of us would at least note that there is a valid question to be asked as to whether current trends of globalization are compatible with sustainability, equity and democracy—whether globally integrated capitalism dominated by the United States (in national terms) and big transnational business (in corporate terms) can be reconciled with those values.

In the case of Stiglitz, however—and here he is undoubtedly representative of a new breed of centrist politicians and technocrats whose collective assumptions appear more deserving of the term 'consensus' than the Washington Consensus ever was—the underlying point is that opening 'developing' economies to foreign competition not only can be but must be reconciled with sustainability, equity and democracy. On this implicit basis, the point of the new paradigm is to develop the institutional and policy frameworks which can enable the globalization project to be embedded in the political and social processes of 'developing' countries.

So the New Washington Consensus is no different from the Washington Consensus in the fourth sense we identified earlier in which the 'Washington Consensus' can be understood. At the heart of both is the aim, as the Financial Times put it, of "integration into the international economy". Their main differences are the means to achieve that aim and the moral compasses that guide them. Whereas the old Consensus, insofar as it was one, derived its moral authority, insofar as it claimed any, from the implicit promise that all would eventually benefit from the unfettered workings of the market and private business, the new one accepts that the market and private business do not necessarily promote the general good and can be their own worst enemies. The New Washington Consensus does not challenge the basic precepts of the orthodox economics, but seeks to put them back in their place, and to promote more modern refinements, such as those pioneered by Stiglitz himself. Whereas the old Consensus promised that applying economic orthodoxy would enable the rest to work, the new insists that without the rest, the economics cannot work.

In short, therefore, the issue boils down to whether the new goals of sustainability, democracy and equity can or cannot be reconciled with current globalization trends. Can participatory processes reflecting and articulating popular aspirations for equitable and sustainable paths of economic and social change also serve the policies and measures of international institutions—the World Trade Organization, as well as the IMF and the World Bank—designed to globally integrate capitalism?

The concentration of power and wealth

In that context, it is surely significant that, although Stiglitz has much to say about inequalities within countries, he addresses less clearly the fundamental problem of imbalances in wealth and power across national frontiers. To an internationalist, it is striking that when Stiglitz points to the unsustainable, inequitable and undemocratic consequences of the Washington Consensus, he seems curiously reluctant to assess the dynamics of globalization. In this respect, he is neglecting some clear trends. In 1950, according to internationally accepted standards, 67 per cent of the world's population lived in poverty; that number had risen by the end of the century to 80 per cent. The 1999 United Nations Human Development Report points out the widening inequalities associated with that trend. Whereas in 1960, the richest fifth of the world's population owned 30 times more than the poorest fifth, by 1995 the same inequality index revealed a 74-1 difference.

Yet, while Stiglitz notes disapprovingly how concentration of media ownership can lead to corruption of the democratic political processes through such mechanisms as vote buying, the World Bank does not appear to see so clearly the ways in which transnational concentration of ownership in not only the media but also other sectors is undermining capacity for local democratic development. Development strategies, policies, decisions—all these and more need to manifest local 'ownership' the World Bank increasingly insists. But what exactly does this mean? It is at least worth asking to what extent anything else can be truly owned when much of a country's economy is the (rights-protected) property of businesses based elsewhere, sometimes on the other side of the world.

At least two big issues arise: firstly, whether such imbalances in property ownership are in themselves equitable, democratic and sustainable; and secondly, to what extent property rights need to be mediated by other rights in order to create conditions for equitable, democratic and sustainable economies and societies. If 'ownership' is to be more than an empty promise—and close interrogation of the term is demanded by the extent to which it is being bandied about in relation to just about anything but property in public policy arenas these days—those issues must be addressed, explicitly.

The nub of the issue is the balance of power in a globalized economy between concentrations of transnational capital and people at local level. In rejecting the Washington Consensus, Stiglitz and others are rejecting the notion that those interests are automatically reconciled through the benign effects of market forces—'trickle-down' is acknowledged to be a shibboleth. Once you depart from faith in 'trickle-down', however, by acknowledging divergence in interests between the rich and the poor, you are bound to ask how the tension between them will be resolved.

The central thrust of the Stiglitz arguments is that this can be done by widening and deepening the role of an active and re-engineered state and through participatory processes to win peoples' consent. It is here that we see the significance of his consistent attempts to argue for his alternative vision both in terms of democracy, sustainability and equity as goals in themselves and in terms of the narrower economic goals so characteristic of the Washington Consensus. The implication is that the World Bank's increasing attention to reform of the state and public management, and involvement of civil society, will be designed to shape those processes to the requirements of an unchanged globalization, rather than the converse.

When Stiglitz refers to the need for government action to stimulate particular areas of the economy because of market failure, for example, what does he have in mind? That governments should tailor their interventions in national economies to the goal of creating more favourable conditions for transnational companies to set up and thrive in 'developing' countries, by promoting the development of infrastructure and of firms which can supply and service the requirements of foreign investors? That would certainly make sense in the context of encouraging foreign direct investment, but it would also leave countries highly vulnerable to the decisions of companies bringing that investment and to the vicissitudes of the world market for capital.

Or does Stiglitz mean that governments should seek, by promoting the development of local, perhaps smaller scale, perhaps cooperative, alternatives and competitors, to reduce national dependence on businesses capable of exerting enormous and largely unaccountable influence on their economies? It would not appear so, since there is no sign in the Stiglitz agenda of abandonment of the doctrine of comparative advantage that has done so much to shape the inequitable path of globalization and is at the heart of the Washington Consensus. This doctrine—predicated on the universal advantages of expansion of global trade—holds that, rather than striving for local self-sufficiency, national economies should concentrate on what they can contribute most competitively to the world economy. According to the textbooks, it benefits everyone—but, as Stiglitz himself points out, markets are in fact distorted and do not conform to perfect textbook models. The effect, therefore, is to lock poorer countries into relative powerlessness in a world economy dominated by rich countries and corporations. It is surely significant that an argument founded on an expanded range of market failures and asymmetries is not extended into this issue.

That fact is bound to prompt widespread scepticism about the extent to which the New Washington Consensus is really a departure from its discredited predecessor. And it is doing so. For example, Chakravarthi Raghavan, editor of Third World Economics speaks for many in arguing: "Now no one, and certainly not its authors and promoters (in the World Bank or the IMF), seriously preach and advocate the Washington Consensus. They are talking of the Washington-plus, of a new development framework, which unfortunately in essence appears to be just old vinegary wine in new bottles, with a different 'appellation of origin'—some cosmetic external add-ons."[34]

However, it could be that Raghavan's indignation is getting the better of his judgement, for the new attention of the Bretton Woods institutions to governance and institutional reform is not cosmetic but real—and, potentially, all the more hazardous for being so. The worry is that the new paradigm could amount to the worst of both worlds: on the one hand, the new orientation justifying intervention by the IMF and World Bank into aspects of national policy development and institution building well beyond the economic sphere; on the other, such increased leverage being used for much the same exploitative purposes as before.

Some see this trend manifested already in the limited moves towards debt forgiveness and reduction which have been spearheaded by the IMF. The Washington-based research and campaign group Development Gap, for example, sees these as creating new and deeper opportunities for IMF control, rather than as a genuine transfer of authority to client countries.

> The IMF would be given the additional role of imposing, and determining the adequacy of, poverty-reduction programs. Perhaps the greatest and most outrageous irony in the proposed debt-reduction plan is the far greater penetration that it would allow the Fund into the

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societies of its client countries. Its new role as judge and financier of anti-poverty programs is a frightening prospect given that the institution remains wedded to an orthodox adjustment paradigm and has demonstrated that it knows considerably less about poverty than the Third World poor know about classical economics. The plan would allow the IMF to determine the adequacy of government consultations with civil society."

"For decades, the Fund has imposed its will on the countries of the South, reshaping their economies with virtually no input from the millions of people affected by their policies. Farmers, workers, consumers, small entrepreneurs, indigenous people and many others have taken to the streets to express their anger and frustration, but to little avail. Not only has the Fund failed to respond, but it has ensured that governments are unresponsive as well by threatening a cut off of all international financing if its adjustment policies are not implemented. Now the institution that has undermined democratic processes around the world as it forces the adoption of poverty-inducing measures is set to be the arbiter of the adequacy of citizen involvement in the design of poverty-reduction programs.[35]

Other examples tell much the same story: that the reorientation of IMF and World Bank programmes towards institution-building, governance and participatory processes are designed not to change the currently unsustainable, undemocratic and inequitable path of global economic change but to overcome obstacles along it.[36] The contrast Stiglitz offers between science and traditional belief is, perhaps, revealing in this respect.

He seems to suggest that while tradition must be respected, its relevance lies in the past rather than the future. But there is abundant evidence that the version of modernity demonstrated in current globalization trends neglects scientific evidence and tradition in equal measure—indeed, that traditional approaches to natural resource management in many communities demonstrate sounder science than 'development' does. One need only quote the inequitable and unsustainable share of the world's energy used, and greenhouse gases produced, by the United States to rest one's case. Tradition in local resource management elsewhere has survived over many generations precisely because of its sustainability. Global warming and other manifestations of environmental degradation—which are evidently no longer future threats but very real current crises—have resulted from approaches to modernity which, in sweeping such traditions aside, continue in denial about scientific evidence.

The role of public services

One very important way in which nations and localities can exercise greater influence over their own economic and social development is through the building and improvement of public services, but in this area, too, it seems there is to be no departure from the Washington Consensus and its minimalist approach to the subject. "We know that for societies to function, the State must provide a certain basic minimal level of services, and that it takes resources to provide those services," Stiglitz says. But we also know that for societies to function sustainably, democratically and equitably, much more than a "basic minimal level of services" is required. Perhaps the new evidence that Sweden, famed for having among the best developed, well resourced and innovative public services in the world, was also the world's top stock market performer in the 20th century, will encourage Washington to depart from the Consensus on the public services issue too.[37]

For now, there is evidence that the new agenda involves increasing Washington control over the course of development of even a basic level of services. Much of the intervention engineered by the World Bank in the past has failed to achieve developmental effects, Stiglitz argues, urging the need for emphasis on policies and actions which not only meet a need directly but also leverage wider development. As an example, he ventures: "A project that provides more textbooks to a school may, for instance, be able to increase the effectiveness of that school, but if there are no resources available to provide similar textbooks to all schools, the project will have very limited development impact. By contrast, a project that develops a new curriculum, one that is better suited to the conditions of the country and motivates children and their parents more effectively, can have nationwide impact."[38]

Possibly so, but who is to decide, and within what parameters, what curricular content is "best suited to the conditions of the country"? Is it to be the parents and other local stakeholders in education, or outside institutions with, no doubt, well-meaning intentions to make a wider impact? Writing as a parent of two children in London's under-resourced public education system, I know where my vote would go between the British government investing in more books and equipment for their school and yet another centrally imposed curricular diktat designed to prepare my daughters for their allotted roles in Tony Blair's brave new world.

It is in such a context that Stiglitz's emphasis on the need to change 'mindsets' takes on somewhat sinister connotations. In the context of globalization

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and the doctrine of comparative advantage, there is real cause for concern that such an approach to education aid would be aimed at suiting the children of poor countries to taking their place in a world economy still dominated by the United States and increasingly run by big transnational business. Washington-directed curricular design is likely to focus too much on the skills and attitudes needed by such employers at the expense of enabling young people to develop their skills range and critical faculties to help them shape and debate the development of their societies and their place in the international economy.

Perhaps the answer to the choice Stiglitz poses is a third option—sufficient assistance to buy books and equipment for every school. But the way in which he presents the options suggests curricular assistance would entail reductions rather than increases in money available for such basic needs. And it has to be said that the idea of the world's public services being designed by an institution steeped in the values of a country which spends a higher percentage of GDP on health care than any other and yet cannot provide basic health insurance for 40 million of its people is a worrying one.

You cannot be serious about public service development and yet accept the present inadequate level of public resources devoted to them, even in some of the rich countries, let alone the poor ones. If the path to sustainable, democratic and equitable development does not involve taxing rich corporations and individuals much more to overcome deficiencies in such basics as school books, then it really does not amount to much. Yet the aspects of the Washington Consensus to which Stiglitz still adheres enable a company like Rupert Murdoch's News Corporation—a vote-buyer supreme in the modern sense of that term—to make $2,300 million in profits in Britain alone since 1987, and yet pay not a cent in corporation tax there.[39]

It is all very well for Bill Gates to charitably donate $750m to pay for immunization programmes for certain diseases, as he recently announced he would do, and for James Wolfensohn to urge transnational companies setting up in poor countries to contribute financially directly to local education services. Societies which depend on such largess to meet their basic health and education needs are neither sustainable, democratic nor equitable—yet new dimensions of power are ceded to large companies.

Reforming public administration

If some aspects of the new agenda would push more power towards transnational businesses, others would give too much to high levels of the state hierarchy, with similar effect. Stiglitz's advocacy of greater reliance on market mechanisms in public administration and public service delivery might seem curiously at odds with his rejection of over-reliance on the market in the economy and his emphasis on the need for participatory rather than mechanistic processes. However, it is at one with the economic and social engineering side of his argument, as well as reflecting the US values which have shaped his thinking. Experience shows quite clearly that market mechanisms in public service delivery are an effective way to control public services from above, especially in the context of scarce resources, rather than to enable more power to be exercised from below.

That is not to say that there is no role for market mechanisms in the delivery of public services, but the idea that they provide a platform for sustainable, democratic and equitable public services development has been thoroughly discredited by experience and is at odds with Stiglitz's own views about the development of knowledge and mobilization of tacit knowledge. Marketizing public service delivery mechanisms—both between public agencies and their suppliers and within public service institutions themselves—can undermine the relationships of trust and the potential for mobilizing the knowledge and experience of public service workers on which the success of efforts to raise efficiency and quality in public service delivery can depend. Whilst appearing to transfer power to public service users, there is considerable evidence that precisely the asymmetries in information and other market distortions about which Stiglitz is so adamant in other contexts can result in marketization of public services shifting more choice and authority to suppliers rather than users.

Similarly, while no-one could oppose his determination to stamp out corruption, the advocacy of competition to do so appears naive and ill-informed. Stiglitz writes: "Governments that are less frequently subjected to temptation are less likely to give in to it. Discretionary actions, such as the allocation of quota rights, provide opportunities for corruption. Corruption has adverse effects on economic growth (partly by raising the costs of doing business and thereby discouraging investment) and undermines confidence in government. Thus, using transparent, market-like mechanisms has a double set of advantages."[40]

But much of the corruption that causes so much

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damage occurs precisely in the context of competition for access to competitively allocated public service delivery contracts, as the experience of contracting-out in many a United States municipality, of franchising water supply in some French municipalities and around the world, and of deals for building new energy capacity throughout the global south have shown. The increasingly powerful international oligopoly of private providers of public services has not achieved that status by fair means alone, and transparency and market-like mechanisms for delivery of public service are by no means necessary bedfellows—often, indeed, in the name of commercial confidentiality, they militate against each other.

The trend of privatization of public utilities is also worth considering in the context of the faith in the benefits of foreign direct investment which is as characteristic of the new consensus as it was of the old. According to Stiglitz: "When capital enters a country through direct investment, it typically comes in a package with management expertise, technical human capital, product and process technologies, and overseas marketing channels—all of which are in scarce supply in the typical developing country. Evidence suggests that if the society puts in place the appropriate complementary policies and structures, FDI can give a boost to the technological level and growth of the host country. The fears about FDI in the 1960s and 1970s were based largely on the notion of FDI as an enclave phenomenon; in its more modern incarnation, which is typically better integrated into the surrounding society, FDI is something to attract, not to fear. International competition among multinationals has become more robust, so that the foreign corporation receives fewer monopoly rents and the host country gets a larger share of the benefits from investment."[41]

But that has not been the experience in relation to the water and power sectors, which the World Bank has been so instrumental in opening up to the small number of transnational corporations which dominate them. On the contrary, contractual and regulatory protections against monopoly rents have proved only as powerful as the ability of governments and municipalities to enforce them. The increasing market share of transnationals in these sectors, allied to the growing dependence of host countries on them, constantly undermines the bargaining power which contractual and regulatory regimes are supposed to afford national and local government. Consequently, while privatization in those sectors has achieved some expansion of supply to those who can afford it, it has undermined the state's and society's capacity to bring it to those who cannot—exacerbating rather than relieving the 'enclave' phenomenon.

Moreover, corruption in the public service context does not necessarily take the form of the payment of bribes or other murky inducements to the securing of contracts. As the Organization for Economic Co-operation and Development has noted in discussing the changing environment which so-called 'new public management' has created for many public servants:

> They are subject to greater public scrutiny and increased demands from citizens, yet they are also facing stricter limits on resources. They are having to assume new functions and responsibilities as a result of: devolution and greater managerial discretion; increased commercialization of the public sector; a changing public/private sector interface; and changing accountability arrangements. In short, they are having to adopt new ways of carrying out the business of government. While public management reforms have realized important returns in terms of efficiency and effectiveness, some of the adjustments may have had unintended impacts on ethics and standards of conduct.[42]

Public administration reforms in New Zealand, so recently an international beacon, are now being increasingly reconsidered for just these reasons, and there are many countries where the public service ethos is much weaker than it was there. Here is a clear case of market mechanisms undermining positive 'social capital'—yet the World Bank advocates more of the same. The inconsistency suggests the aim is to shape the behaviour of public servants and change their 'social capital' and 'mindsets' to suit the globalization project. That, rather than the blind neo-classical faith in the market characteristic of the Washington Consensus, explains why in this context, if not in all, the New Washington Consensus shares the favoured technique as well as purpose of its predecessor.

Marketizing public service can and indeed does change the mindsets of public servants (although research shows they have resisted this as much as possible) by enforcing discipline to hit centrally directed performance targets shaped within the parameters of decreasing resources. This is hardly compatible with local 'ownership', participatory processes of decision making or building the 'social capital' of public servants in consort with that of service users. The implication is that this new 'development' paradigm is about engineering government action and participatory processes to create a political and social platform for compliance with the demands of a globalization project highly distorted in

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favour of the rich countries and businesses, rather than enabling that imbalance to be corrected.

Successes and failures

That order of priorities can be detected also in the contrast between the successes of 'development' which Stiglitz claims as keenly as did his predecessors and his own acknowledgement of the failures. 'Development' has reduced poverty, he insists, at the same time as he acknowledges that there are now more people living in absolute poverty, asked to manage on less than a dollar a day, than there were when the World Bank began operations half a century ago. Self-contradiction, surely? The explanation is that there was a slightly declining percentage of the world's population living on less than a dollar a day between 1987 and 1993, although the number of absolute poor over the same period rose.[43] Stiglitz blames population growth for this divergence of trends, but—aside from the fact that many other factors are involved—it is just not good enough for the institution charged with getting rid of poverty on a global scale to claim the opposite outcome is caused by there being so many people in the world. If the actual needs of the actual number of people in the world are not a starting point for a strategy to eradicate poverty, where exactly does it start?

Population growth might be a good excuse if we could claim that the earth's resources were already insufficient to support all the world's people. But while there is indeed a real danger—if economic, social, ecological and population trends continue along their present path—that the day will soon come when the world is incapable of supporting us all, we have not reached that sorry pass just yet. (Unless the increasing frequency with which 'natural' disasters are killing and displacing tens of thousands of the world's poorest people proves such optimism is already outdated.) What we do have is manifest evidence that the current world system of economic relations is incapable of supporting us all. It follows that commitment to democracy, equity and sustainability should be prior to, rather than constrained by, the existing imbalances of global wealth and power. That is the logic of the arguments Stiglitz advances, and yet not the conclusion he himself draws. His points about the 'dual economy' within 'developing' nations which have achieved rapid economic growth are well made, but they serve also to expose more starkly the wider inequalities in the global economy as a whole.

A recurrent theme of all the above issues is that while, unlike the Washington Consensus, the new agenda acknowledges the need to promote reconciliation of economic and social development, it seeks to do so without fundamentally challenging global economic relations or their priority. Why then, if the New Washington Consensus shares the aims of its predecessor, have sections of the Washington establishment rounded so viciously on Stiglitz and, perhaps, engineered his removal? To explain that, bear in mind that it would not be the first time a heresy has become the new orthodoxy even as the heretic burns at the stake. (Not that Joseph Stiglitz is burning—he has just become chairman of New York investment managers Brookdale, although he will continue as an advisor to the World Bank.) The Washington reaction to Stiglitz might have more to do with turf wars within and between the Bretton Woods institutions, and with technocratic power politics, than with anything else. No doubt Stiglitz could point to 'information asymmetries' too.

Stiglitz's theoretical ascendancy has not gone down well with some his professional rivals. It is also under challenge from opponents of the Washington Consensus for being no more than a modernization of neo-classical doctrine. One critic from this standpoint is Ben Fine, Professor of Economics at the School of Oriental and African Studies, London University. He points out that the essential characteristic of the Stiglitz analytical approach is the extension into the social sphere of longstanding economics principles about market imperfection. "Whilst it is true that a whole range of new economic applications have been built up on these informational, and other, principles," Fine comments "it is the narrowness of their analytical scope that is breathtakingly presumptuous from the perspective both of other approaches within economics as well as other social sciences."

Fine argues that the "analytical basis for the Post-Washington Consensus is extremely narrow and weak, especially from the perspective of anyone not wedded to mainstream economics". He adds: "Indeed, it is best seen as resting upon two fundamental characteristics which can both be understood as reductionist or the interpretation of economic and other social relations through the narrowest of explanatory prisms. On the one hand, there is the reductionism to individual behaviour. On the other hand, there is the reductionism to market imperfections based on informational imperfections."[44]

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If Fine is right, the irony is that what he identifies and rejects in the New Washington Consensus is precisely what Stiglitz identifies and rejects in the Washington Consensus—the usurpation by the school of Anglo-Saxon economics of the space required by other schools of economics, other social sciences and other areas of policy. The practical application of theoretical reliance on the 'market failure' concept suggests Fine is indeed right, for Stiglitz repeatedly asserts—for example in his discussion of the role of competition and regulatory design—the existence of general laws of market failure, albeit over a wider range than many neo-classicists would allow. That method is intrinsically opposed to basing the role of the market—and therefore the criteria of its failure—on the decisions of political and social processes.

5. Conclusion

In 1998, Ben Fine commented: "Even before the old Consensus has been decently assessed and buried, the pretender to its throne is already grabbing at the crown in a palace revolution. However welcome the demise of the old Consensus might be to those who have opposed it for almost two decades, the question of succession needs to be contested."

Now, having rearranged the furniture during his stay, Joseph Stiglitz has been ejected from (or chosen to leave) the palace. Stiglitz resigned his World Bank post in the very same week that representatives of the growing global social and environmental movement sent World Trade Organization delegates homeward from Seattle to think again about trade liberalization. The international movement for a democratic, sustainable and equitable future was not born that week, as some commentators thought. It has been around a long time, but it did come of age then, as both sides felt its power. The WTO delegates will soon be talking language similar to that of Stiglitz—probably, like many World Bank and IMF economists, they already are. Their fortunes in future might depend on the extent to which those on the streets that week are able to move past the co-option of their vocabulary towards a shared vision of how current globalization trends need to change in order to contribute to sustainability, equity and democracy.

The struggle will, of course, take more concrete forms, and if we turn to some of those, in the context of the Bretton Woods and other global institutions, we can see clearly the limited extent to which the New Washington Consensus departs from its predecessor. If we are contesting the belief that the current globalization trend can be reconciled with sustainability, equity and democracy, there are some touchstone controversies which can guide us. On sustainability, climate change is one. Where global sustainability is incompatible with the interests of the most powerful forces in the world economy, which will dominate and how will this be manifested in World Bank research and operations, for example, in support for energy projects? Will the Bank use its considerable power in the market to increase the use of renewable sources, and, by doing so, lower the price of the associated technologies? On equity, the future path of debt write-offs and reductions, and the conditions attached to them, will be revealing, and the next steps of the World Trade Organization, the World Bank and IMF on trade and financial liberalization will be vital. And on democracy, when the presidential apparatus of the World Bank recommends democratization of that institution and its big sister, the IMF—at present the votes in those institutions are quite literally bought by their richer shareholders—we will know a fundamental rather than strategic change might be underway there. (But that day might have to wait until the votes for the presidency of the United States can no longer be less obviously bought.)

In conclusion, let us revisit the eloquent words of Jeffrey Sachs:

> The collapse of the emerging markets and its ricochet effect on advanced economies may not be the end of globalization. But it is certainly the end of an era. Since the miraculously peaceful fall of communism, Washington has aspired to stage-manage the transition to global capitalism. America, in concert with Europe and Japan, would ensure security and arrange deals on world trade and regional stability; the International Monetary Fund would do the financial plumbing, to connect Russia, Africa, Latin America and South Asia, back to the world economy. This approach is rapidly collapsing.[45]

An era has indeed ended, and another begun, but in explaining the collapse that precipitated that transition both Sachs and Stiglitz point primarily to technical failings. That is highly significant. The New Washington Consensus involves much more effective techniques, based on the reality that market economies need the active assistance of states and the consent of societies. It represents a far more effective way to "stage-manage the transition to global capitalism" than

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the Washington Consensus ever did.

That is why it represents a more formidable challenge to the longstanding opponents of the Washington Consensus than the latter did. For the technical failings of the Washington Consensus were so glaring that they tended to become the focus of political opposition to the agenda they were serving. Its market fetishism was an easy target, but the more sophisticated relationships between market, state and society understood by the New Washington Consensus demands a corresponding development in the theoretical progress of the global social and environmental movement. It requires us to face a fundamental issue ducked by many besides Joseph Stiglitz. Are sustainability, equity and democracy compatible with domination of the world's markets, economies and societies by big transnational business, or not? And if not, what relationships of society, state and market are compatible with those values and goals?

Joseph Stiglitz is a brilliant economist—a future Nobel prize winner, it is said—and a formidable and fearless spokesman for the cause he espouses. But in acknowledging that the 20th century's brutal attempts of both state and market to enslave society have failed, he is saying nothing new. If I may quote my own words of 1993:

> For the neo-liberal, individuals make rational economic and social choices only through the market. For the statist, the state is the sole custodian of society's interests, and its decisions their only reliable expression, with or without free elections. While the one ideology seeks to subordinate state to market, and the other the market to the state, what both succeed in doing is subordinating society's will and the means of its expression. The alternative is that both state and market should be the servants of society rather than society being the servant of either. Whether the next century will be marked by unity and harmony rather than division and conflict depends in no small part on what democracy and citizenship are to mean in the age of globalization.[46]

I stand by that, but times have changed. Joseph Stiglitz has elaborated a new paradigm in which the state is re-engineered to more actively assist a global market dominated by the countries that are already rich and the transnational businesses primarily based in them, but emphasizing the need to win peoples' consent for their own servitude. He has left behind an institution which, through the Washington Consensus, first operated on part of the corpus and then came up with some ineffectual remedies for the side-effects. Now it claims to offer a new range of holistic treatments. The patient would be wise to resist the anaesthetic.

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6. Resources

Selected publications

As well as those listed in the notes opposite, interested readers may want to refer to some of the articles and publications listed below.

'The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries', Gore, C., in *World Development*, vol 28, no. 5, May 2000.

'Acerca de Joseph Stiglitz', Escudero, J-C., in *Salud, Problema y Debate*, Buenos Aires, Invierno, 1999.

Economie politique du consensus de Washington révisé, Tchuigoua B.F., *Forum du Tiers Monde*, Senegal, 1999, mimeo.

'Beyond the North-South Divide: the two tales of World Poverty', Thérien, J-P., in *Third World Quarterly*, vol. 20, no. 4, 1999.

'The World Bank and Human Development: Washington's New Strategic Approach', Jakobeit, C., in *Development and Cooperation*, November/December 1999.

Rethinking Development, Malhotra. K., Paper commissioned for UN ESCAP, Focus on the Global South, 1998.

The Death of Development, Jordan, L., Bank Information Centre, 1999.

The Bank, the State and Development, Dissecting the 1997 World Development Report, *IDS Bulletin*, vol 29, no. 2, April 1998.

Our Continent, Our Future: African Perspectives on Structural Adjustment, Mkandawire, T. and Soludo, C. CODESRIA, IDRC, and Africa World Press, 1999.

Development Policy In the 21st Century, Fine, B. Lapavitsas, C. and Pincus, J. (Eds.), Routledge, forthcoming.

Reinventing the World Bank, Pincus, J. and Winters, J. (Eds.), Cornell University Press, forthcoming.

Globalization and Liberalization: Effects of International Economic Relations on Poverty, UNCTAD, 1996.

The Case Against the Global Economy and For a Return to the Local, Mander, J. And Goldsmith, E. (Eds.), Sierra Club books, 1996.

Masters of Illusion, The World Bank and the Poverty of Nations, Caufield, C., MacMillan, 1996.

Final Summary, electronic conference on the draft Poverty World Development Report, see: www.brettonwoodsproject.org.

Local lives and livelihoods in a global economy, Bundell, K., Church Action on Poverty and Christian Aid, 1999.

The 'perestroika of aid'? New perspectives on conditionality, Wood, A. and Lockwood, M., Bretton Woods Project and Christian Aid, 1999.

Stop the World!, Public Services International, 2000.

The World Bank, A PSI Guide for Public Worker Unions, PSI, 1998.

Selected organizations

As well as PSI and the Bretton Woods Project (see page 2 for more information), the following are useful contacts for information or to discuss advocacy collaboration.

Focus on the Global South.
Produces reports and a bulletin, Focus on Trade, which analyse trends in regional and world trade and finance.
c/o CUSRI Wisit Prachuabmoh Bldg Chulalongkorn University Phyathai Road Bangkok 10330 Thailand
admin@focusweb.org www.focusweb.org

The Bank Information Center—BIC
A clearing house for information on multilateral development bank-funded projects.
733 15th Street, NW, Suite 1126 Washington DC 20005 USA
info@bicusa.org www.bicusa.org

Third World Network/Third World Economics
A Network of organizations working on macroeconomic and globalization policies. Produce reports and a bulletin, Third World Economics.
228 Macalister Road 10400 Penang Malaysia
twn@igc.apc.org www.twnside.org.sg

The European Network on Debt and Development (EURODAD)
A European network of NGOs on debt and development issues.
Rue Dejoncker 46 1060 Brussels Belgium
info@eurodad.ngonet.be www.oneworld.org/eurodad

Alternative Information and Development Centre—AIDC
P.O. Box 1139 Woodstock 7925 Cape Town South Africa
aidc@iafrica.com www.aidc.org.za

Friends of the Earth International
Friends of the Earth (FOE) is an international environmental advocacy organization which monitors the lending policies and projects of the MDBs.
PO Box 19199 1000 GD Amsterdam The Netherlands
ifi@foeint.antenna.nl www.foe.org

Globalization Challenge Initiative
Publishes News and Notices for World Bank Watchers, a digest of information and analysis about recent institutional and policy moves.
9703 Hedin Drive Silver Spring, MD 20903 USA
global.challenge@juno.com www.globalarchitects.org

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50 Years is Enough
US-based activist network challenging the international institutions.
1247 E Street, SE Washington, DC 20003 USA
wb50years@igc.org www.50years.org

International Centre for Trade and Sustainable Development—ICTSD
Assists NGOs working on WTO issues. It publishes Bridges (in English, French and Spanish), a magazine which updates NGOs on developments, agenda items and WTO issues.
Geneva Executive Centre Chemin des Anénomes 13 1219 Geneva Switzerland
ictsd@iprolink.ch www.ictsd.org

SOLIDAR
SOLIDAR addresses workers' rights issues with trade unions, social democratic parties in Europe and development bodies such as the WTO.
Rue du Commerce 22 B-1000 Brussels Belgium

solidar@skynet.be www.solidar.org

Jubilee 2000 Coalition

Jubilee 2000 is an international network of organizations working on third world debt.
1 Rivington Street London EC2A 3DT UK
mail@jubilee2000uk.org www.jubilee2000uk.org
See also Jubilee South: www.jubileesouth.net

Education International—EI

The world's largest educators' forum, representing 24 million members.
5 Blvd du Roi Albert II (8th floor) B-1210 Brussels Belgium
educint@ei-ie.org www.ei-ie.org

International Confederation of Free Trade Unions—ICFTU

International representative body of national trade union groupings.
Boulevard Emile Jacqmain 155 B 1210 Brussels Belgium
internetpo@icftu.org www.icftu.org

The Trade Union Advisory Committee (TUAC) to the OECD

A trade union organization which advises the OECD.
26 avenue de la Grande Armee 75017 Paris France
tuac@tuac.org www.tuac.org

International Labour Rights Fund—ILRF

The International Labour Rights Fund (ILRF) is a non-profit organization advocating for the rights of workers in the global economy.
733 15th Street, NW Suite 920 Washington, DC 20015 USA
laborrights@igc.org

Web sites of the international institutions

IMF: www.imf.org
World Bank: www.worldbank.org