

## The ten Commandments of the Washington Consensus

1. **Fiscal Discipline.** This was in the context of a region where almost all the countries had run large deficits that led to balance of payments crises and high inflation that hit mainly the poor because the rich could park their money abroad.
2. **Reordering Public Expenditure Priorities.** This suggested switching expenditure in a pro-growth and pro-poor way, from things like non-merit subsidies to basic health and education, and infrastructure.
3. **Tax reform.** Constructing a tax system that would combine a broad tax base with moderate marginal tax rates.
4. **Liberalizing Interest Rates.** In retrospect I wish I had formulated this in a broader way as financial liberalization, stressed that views differed on how fast it should be achieved, and recognized the importance of accompanying financial liberalization with prudential supervision.
5. **A Competitive Exchange Rate.** I fear I indulged in wishful thinking in asserting that there was a consensus in favor of ensuring that the exchange rate would be competitive, which implies an intermediate regime; in fact Washington was already beginning to edge toward the two-corner doctrine which holds that a country must either fix firmly or float "cleanly".
6. **Trade Liberalization.** I acknowledged that there was a difference of view about how fast trade should be liberalized, but everyone agreed that was the appropriate direction to move.
7. **Liberalization of Inward Foreign Direct Investment.** I specifically did not include comprehensive capital account liberalization, because that did not command a consensus in Washington.
8. **Privatization.** This was the one area in which what originated as a neoliberal idea had won broad acceptance. We have since been made very conscious that it matters a lot how privatization is done: it can be a highly corrupt process that transfers assets to a privileged elite for a fraction of their true value, but the evidence is that it brings benefits when done properly, and the privatized enterprise either sells into a competitive market or is properly regulated.
9. **Deregulation.** This focused specifically on easing barriers to entry and exit, not on abolishing regulations designed for safety or environmental reasons.
- 10 **Property Rights.** This was primarily about providing the informal sector with the ability to gain property rights at acceptable cost.

(from **The Washington Consensus and Beyond** )

by

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