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The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries

CHARLES GORE *

United Nations Conference on Trade and Development, Geneva, Switzerland

Summary. — The introduction of the Washington Consensus involved not simply a swing from state-led to market-oriented policies, but also a shift in the ways in which development problems were framed and in the types of explanation through which policies were justified. Key changes were the partial globalization of development policy analysis, and a shift from historicism to ahistorical performance assessment. The main challenge to this approach is a latent Southern Consensus, which is apparent in the convergence between East Asian developmentalism and Latin American neostructuralism. The demise of the Washington Consensus is inevitable because its methodology and ideology are in contradiction. © 2000 Elsevier Science Ltd. All rights reserved.

Key words — development theory, development policies, World Bank/IMF policies

1. INTRODUCTION

Developing countries is an international practice. The essence of this practice is the mobilization and allocation of resources, and the design of institutions, to transform national economies and societies, in an orderly way, from a state and status of being less developed to one of being more developed. The agencies engaged in this practice include national governments of less-developed countries, which have adopted "development" as a purpose to which State power is put, and governments of richer countries, which disburse official development aid to support and influence this process; a variety of non-governmental organizations concerned to animate and channel popular concerns; and international intergovernmental organizations, such as the organs of the United Nations and the World Bank, many of which have been expressly set up to resolve various development problems. Often it is the last group who have acted as the avant-garde of development practice. It is because of their activities, as well as the widespread tendency of governments to copy successful practice elsewhere, that it is appropriate to describe developing countries as an international practice. But it is by no means global in scope. Indeed the practice of developing countries is only done in a particular set of countries—those which in the 1950s and 1960s were generally called "underdeveloped" or "less developed" countries, but which now generally identify themselves, and are identified by others, as "developing countries."

This paper discusses trends in the body of knowledge which guides and justifies the practice of development. It examines, in particular, the ideas propagated by international development agencies, and focuses on the shift in thinking which occurred in the 1980s with the introduction and widespread adoption of an approach to the practice of developing countries known as the "Washington Consensus." In broad terms, this approach recommends that governments should reform their policies and, in particular: (a) pursue macroeconomic stability by controlling inflation and reducing fiscal deficits; (b) open their economies to the rest of the world through trade and capital account liberalization; and (c) liberalize

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domestic product and factor markets through privatization and deregulation. Propagated through the stabilization and structural adjustment policies of the International Monetary Fund (IMF) and World Bank, this has been the dominant approach to development from the early 1980s to the present. The paper examines the introduction of the Washington Consensus as a paradigm shift, and assesses the configuration of development thinking in the 1990s and pressures for a further paradigm shift, particularly in the light of the East Asian financial crisis and recent attempts to construct a "post-Washington Consensus."

The paradigmatic nature of the Washington Consensus is most clearly evident in the work of John Williamson (1990,1993,1997), who coined the name and also set out a specific formulation of the approach at the end of the 1980s. This formulation was founded on an attempt to summarize, with particular reference to policy reform in Latin America, "the conventional wisdom of the day among the economically influential bits of Washington, meaning US government and the international financial institutions" (Williamson, 1993, p. 1329). Williamson never explicitly identifies the Washington Consensus as a paradigm. But the way he describes the approach conforms in many respects with Thomas Kuhn's notion of one. [1] Thus, he argued that the Washington Consensus is a "universal convergence," and that it constitutes "the common core of wisdom embraced by all serious economists" (Williamson, 1993, p. 1334). He codified the approach as a set of 10 axiomatic generalizations which, given certain values, are generally shared by scholars and practitioners concerned with economic growth in developing countries; and he listed remaining analytical problems on which normal economic science needs to focus. Finally, he dismissed those who challenged the consensus view as "cranks" (p. 1330). As he put it,

> [T]he superior economic performance of countries that establish and maintain outward-oriented market economies subject to macro-economic discipline is essentially a positive question. The proof may not be quite as conclusive as the proof that the Earth is not flat, but it is sufficiently well established as to give sensible people better things to do with their time than to challenge its veracity (p. 1330).

The structure of the revolution in thinking which occurred with the introduction of Washington Consensus policies is usually seen as a shift from state-led *dirigisme* to market-oriented policies. Such a switch undoubtedly occurred. But it is not a sufficient description of the nature of the change as a paradigm shift. As Kuhn shows, when paradigms change, there are usually significant changes in the "methods, problem-field, and standards of solution" which are accepted by a community of practitioners (Kuhn, 1970, p. 103). As a consequence, "the proponents of competing paradigms practice their trades in different worlds...[they] see different things when they look from the same point in the same direction" (p. 150). In examining the introduction of the Washington Consensus as a paradigm shift, what matters is not simply the substantive differences with earlier approaches, but also the nature of the change in the disciplinary matrix and world-view.

Here it will be argued that together with the swing to market-oriented policies, there was a deeper shift in the way development problems were framed and in the types of explanation through which development policies were justified. This involved changes in the spatial and temporal frame of reference of development policy analysis. In brief, these changes were: the partial globalization of development policy analysis; and a shift from historicism to ahistorical performance assessment.

2. THE PARTIAL GLOBALIZATION OF DEVELOPMENT POLICY ANALYSIS

Specifying development policy problems involves both explanations of development trends and normative judgements about how the world should be. For each of these activities, an important decision which must be made is deciding the policy frame, i.e. what elements should be included when viewing a problem and what elements excluded. [2] The framing of policy issues has various aspects but one which critically affects the practice of developing countries is whether policy problems are seen within a global or national frame of reference. Explanations and normative judgements can each be elaborated within a national or global frame of reference, and so the thinking which underpins the practice of developing countries can be wholly national, wholly global, or some combination of both (Figure 1). The full globalization of development policy analysis will be understood here to mean a shift from a

		Normative Framework	
		National	**Global**
Explanatory Framework	**National**	Wholly National	Global Norms/ National Explanations
	Global	Global Explanations/ National Norms	Wholly Global

Figure 1. *Four main combinations of explanatory and normative framework in development policy analysis.*

national to a global frame of reference both for explanations and normative evaluations.

Before the propagation of the Washington Consensus in the 1980s, mainstream explanations of the development process and evaluative judgements of the goals of development were both conducted within a national frame of reference. First, economic and social trends within countries were explained, in the mainstream, on the basis of conditions within the countries themselves, i.e. as a result of national factors. Particular external relations might be necessary to start the process, or to close "gaps" which threatened its breakdown. But the key ingredients of a successful development process were usually identified through analyses of sequences of change within already industrialized countries, which were then applied in less developed countries without any reference to their different external situation. Second, development policies were geared toward the achievement of national objectives. This orientation was often simply taken for granted in development policy analysis. But it was also influenced, more or less strongly, by political and economic nationalism. According to Johnson (1967), key features of economic policy in new States—namely, the desire for greater self-sufficiency and early industrialization, the preference for economic planning and public control, and hostility to foreign investment—can all be traced to the mutual supporting relations between nationalism, aid policy, and ideas about the development problem formed in the 1930s. Those ideas became part of a common understanding and language of national and international policymakers after WWII.

There were, of course, major controversies both over the meaning of development and the means of achieving it. In the 1950s and 1960s there were debates about development strategy (for example, balanced or unbalanced growth), the nature of dualistic development processes, and the role of human capital. Moreover, in the 1970s the earlier focus on economic growth with structural change was strongly challenged by those who pointed to the need to focus on social objectives, notably income distribution, poverty, employment and basic needs satisfaction. [3] But these disputes actually served to reinforce the normative and explanatory frames of development policy analysis as being national. Whatever objectives were taken to be central, national objectives were the focal concern. Moreover the development strategy debates essentially examined the articulation and sequencing of internal (national) ingredients which could facilitate or accelerate the national development process.

An important countercurrent to mainstream development policy analysis before the 1980s came from structuralist and dependency theories elaborated in Latin America (see Kay, 1989). Like the dominant approach the normative concern of these theories was national, and indeed strongly informed by nationalist concerns. But their analytical perspective was global in scope and this underpinned their critiques of mainstream thinking. Both structuralist and dependency theorists emphasized the importance of center-periphery relations as determining or conditioning the national development process. But some strands within dependency theory,

instead of indicating how national development was affected by the articulation between internal and external factors, simply put forward an antithesis to the mainstream approach, arguing that external factors were the only ones that mattered, and then deduced that by delinking from the world economy, an "authentic" development process, solely founded on internal factors, could be made to occur.

In the late 1970s and early 1980s, the growth rate of most developing countries, with the notable exception of some countries in East Asia, collapsed. The economic crises which beset most developing countries lent weight to arguments that mainstream development practice had failed. But at the same time the East Asian success neutralized those versions of dependency theory which argued that development would always be blocked on the periphery, and also Latin American structuralism, which allegedly was wedded to inward-oriented import-substitution policies in contrast to East Asia's alleged outward-orientation. In this situation, arguments which emphasized the positive role of free markets in development attracted greater attention. These ideas had always been an element within development policy analysis, represented, for example, by early critiques of protectionism, such as G. Haberler and H. Myint, Milton Friedman's support of free enterprise, and P.T. Bauer's dissection of mainstream thinking (Bauer, 1971). The uptake of these ideas was not strong however until the late 1970s and early 1980s, when a new approach to developing countries, which was later labeled the Washington Consensus, emerged as the main alternative to national developmentalism. [4]

The frame of reference for this new approach was, like the Latin American countercurrents of the pre-1980s, partially global and partially national. But rather than combining normative economic nationalism with a methodological internationalism, the Washington Consensus was its mirror image. It combined normative economic internationalism with a methodologically nationalist form of explanation which attributed what was happening within countries mainly to national factors and policies (Figure 2).

In this new approach, the key norms which played the decisive role in defining development practice were the norms of a liberal international economic order (LIEO). In most general terms, these norms involve a commitment to free markets, private property and individual incentives, and a circumscribed role for government. But they can be specified in different ways, according to different interpretations of the precise content of the LIEO. For example, in the early 1980s, laissez-faire liberalism was strongly advocated. This entailed liberalization of both external and domestic economic relations. But at the start of the 1990s, this extreme market fundamentalism was softened with the emergence of the so-called market-friendly approach to development (see, notably, World Bank, 1991). This

		Normative Framework	
		National	**Global**
Explanatory Framework	**National**	Competing Mainstream Dev. Paradigms Pre-1982 e.g. *Balanced v. Unbalanced Growth*	Dominant Development Paradigm Post-1982: *Washington Consensus*
	Global	Main Counter-currents Pre-1982 *Latin American Structuralism and Dependency Theory*	

Figure 2. *The configuration of development policy analysis: 1950–1990.*

continued strongly to advocate liberalization of external trade and capital movements. But, the scope of domestic economic liberalization was limited, in particular, by recognizing more fully the legitimacy of state intervention in cases of market failure.

These norms were propagated through two types of persuasive argument: first, arguments about the intrinsic ethical superiority of economic liberalism; and second, theoretical and empirical analyses which demonstrate that conformity to the norms of a LIEO (variously defined) would lead to better outcomes, not simply for the world community as a whole, but also for individual nation-states within it. The latter, which have served as the principal form of argument supporting the new approach, have mainly been articulated on a terrain in which promoting the national interest has been narrowly equated with promoting economic growth and increasing personal economic welfare. Important developmentalist concerns such as constructing national unity and realizing national sovereignty are thus excluded. On this narrowed ground, attention and publicity has been given to analyses which show that national policies which are in conflict with the norms of LIEO, including many elements at the heart of earlier development practice, such as protection of infant industries, managed interest rates and selective credit, have been harmful to national interests, and thus constituted domestic mismanagement and "irrationalities." At the same time, the policies of the East Asian newly industrializing economies which had actually achieved rapid and sustained growth have been described in ways which suggest that they conformed to the requisite liberal norms. [5] For both conflicting and conforming policies, their impact on the efficiency of resource allocation has been identified as the main mechanism by which domestic policies affect economic growth.

While the normative frame of reference of the new approach was global in scope, the explanatory arguments which sought to prove the instrumental superiority of the LIEO were characterized by methodological nationalism. That is to say, in explaining economic trends within countries, they partitioned influences into external and internal factors and attributed most of what was happening to internal (national) factors and, in particular, to domestic policy. [6] In making the case for trade liberalization and export promotion, for example, conditions of global demand are generally ignored and, through the "small country" assumption, it is typically assumed that foreign markets are always available, and at prices largely independent of a country's exports. Empirically, the most common approach to prove the dynamic benefits of outward-orientation has been crosscountry regression analyses which establish the statistical relationships between indicators of national economic change and a series of national variables, which include, in particular, indicators of national policy. The essence of this methodology is areal correlation between dependent and independent variables, to identify the extent to which variation in the former between a given set of national territories matches variation in the latter between the same territories. This can be done at a certain point in time or for periods of time (e.g. by using growth rates over 20 years). In either case, specific histories are filtered out and it is assumed that relationships which pertained in the past will continue into the future. Economic trends are necessarily attributed to the behavior of the national factors.

In the 1990s, changes in the nature of the external environment are increasingly being used to explain why liberalization, coupled with the right macroeconomic fundamentals, "works." Thus it is argued that in an increasingly globalized world economy, in which there is the globalization of production systems, increasing reliance on trade and increased availability of external financial flows, countries which do not follow Washington Consensus policies will be especially penalized, as they will be cut off and thus excluded from the intensifying (and implicitly beneficial) global field of flows. Concomitantly, those countries which do follow the right policies will be rewarded, as they can capture foreign direct investment which brings technology and market access, and they can also supplement national savings with international capital flows, thus reaping the benefits of the new external environment. In this way, the case for liberalization is rooted in the rhetoric of the globalization. But the analysis remains methodologically nationalist as it retains the distinction between external and internal (national) factors, and still attributes country trends largely to domestic policy (see, for example, IMF, 1997; World Bank, 1997). Globalization is something which is happening to the external economic environment of countries; it is outside them.

3. THE SHIFT FROM HISTORICISM TO AHISTORICAL PERFORMANCE ASSESSMENT

The curious combination of global liberalism [7] and methodological nationalism which underpins the way in which development is seen in the new paradigm has been buttressed by a second key shift which occurred in development policy analysis at the end of the 1970s. This can be characterized as a shift from historicism to ahistorical performance assessment.

Theorizing on development strategy from the 1950s to the 1970s was historicist in the general sense that it was founded on an attempt to understand rhythms, patterns and laws of development. [8] This understanding was based on historical analysis of long-term sequences of economic and social change, which had occurred in the past in already-industrialized countries and which were expected to re-occur, particularly if the right policy interventions were made, in "less developed" countries. Such theorizing most typically understood development as a societal and economy-wide transition from a "traditional" (rural, backward, agricultural) society to a "modern" (urban, advanced, industrial) society. This process was seen as a sequence of stages of growth, a process of modernization, or recurrent patterns of structural transformation. [9] All countries were expected to go through such patterns of development, and development agencies sought to ensure or accelerate the arrival of a better future for whole societies through interventions in these long-term processes of historical transformation.

With the shift to ahistorical performance assessment, the focal object of enquiry has been to describe and explain national "performances" of various types. Not surprisingly but now taken-for-granted, the key word in the discourse propagated by international development agencies since the start of the 1980s has been "performance." Attention has been particularly paid to economic performance, but also agricultural performance, industrial performance, trade performance, financial performance, fiscal performance, poverty performance, human development performance and so on. Using these various standards, countries have been partitioned into good and bad performers, and ranked according to their performance in various new leagues of nations. Moreover comparative performances have been explained by reference to national factors and national policy.

It is according to these performance standards that past development policies have been criticized because they do not "work" and narratives have been constructed about the effectiveness of the Washington Consensus. A succession of countries which have undertaken policy reform in the requisite way and achieved good short-term growth results have also been identified as, and dubbed, "success stories." These stories have acted as exemplars for the new paradigm, providing not only practical rules-of-thumb guidance on how policy reform should be undertaken, but also proof of the validity of the Washington Consensus.

The transition from historicism to ahistorical performance assessment started in the 1970s, and was initially animated by those who sought to refine the definition of development by adding social aspects. Efforts to measure poverty based on the quality of life and satisfaction of basic needs were particularly important in this regard. Michael Lipton's book *Why Poor People Stay Poor* was a key text in propagating a performance-oriented approach. The uptake of the notion of urban bias, a concept which was forged within debates about how to achieve redistribution with growth but which became central to the neoliberal paradigm, can be attributed to its performance-based definition, and the vitriolic debates of the late 1970s, particularly with Byres, can be interpreted as an attempt to sustain a historicist view (see, for example, Byres, 1979). In the 1980s, these initial moves toward performance assessment were overtaken by, and later incorporated in, the discourse and practice of structural adjustment. Adjustment involved improving the performance of national economies by increasing the efficiency of resource allocation. The central criterion used to measure performance was current or recent GDP growth rate, and macroeconomic stability, indicated by fiscal and external payments balance and low inflation. The dynamics of long-term transformations of economies and societies slipped from view and attention was placed on short-term growth and re-establishing financial balances.

The shift to ahistorical performance assessment can be interpreted as a form of the post-modernization of development policy analysis. It reflects, in particular, the questioning of grand narratives of historical transformation which was central to the appeal of the post-

modern ethos in the 1980s. [10] Before the shift, development agencies acted as handmaidens of "progress," "modernization," "industrialisation," or the emancipation of people from oppression, exploitation, disease and drudgery. After it most agencies re-oriented their work to monitor and seek to improve "performance," often through local problem-solving and local social engineering designed to make economic and social institutions "work" better. Adjustment also entailed the abandonment of grand long-term government-directed designs for whole societies and a shift to decentralized decision-making, laissez-faire and local social engineering. But ironically, this shift away from holism could not be achieved without a holistic approach. Everything has been made subject to the rules and discipline of the market. The vision of the liberation of people and peoples, which animated development practice in the 1950s and 1960s, has thus been replaced by the vision of the liberalization of economies. The goal of structural transformation has been replaced with the goal of spatial integration.

4. THE CONFIGURATION OF DEVELOPMENT POLICY ANALYSIS IN THE 1990S

The collapse of communism in Eastern Europe and the Soviet Union has served as confirmation of arguments which predicted the impossibility of central planning and reinforced the apparent superiority of a market-oriented development approach. Since the late 1980s however there have developed two important challenges to the Washington Consensus. The first is the UNDP's sustainable human development (SHD) approach. This approach takes up some of the themes of the UNICEF critique of the dominant approach, *Adjustment with a Human Face*, originally published in 1987, and has been elaborated through the annual *Human Development Report*, which first appeared in 1990 (UNDP, Various years). The second is a latent "Southern Consensus," which is founded on analyses made from the perspective of countries undertaking late industrialization and seeking to catch up with richer countries in the global economy. This Southern Consensus does not exist as a political reality. Nor has it, as yet, been articulated analytically. Its existence is apparent however in the convergence between the policy conclusions of Latin American neostructuralism, initially set out by ECLAC in 1990, and the deeper understanding of East Asian development models, which is described in ESCAP (1990), but has been most thoroughly reconstructed by UNCTAD in its annual *Trade and Development Report* (particularly 1994, part 2, chapter 1; 1996, part two; 1997, part 2, chapters V and VI; and 1998, part 1, chapter 3). [11]

These two challenges to the Washington Consensus have shaped development thinking and practice in different ways. Indeed development policy analysis is now characterized by a double dialectic. The clash between the Washington Consensus and the sustainable human development approach acts to reinforce and conserve the key elements of the current paradigm, and in particular its ahistorical approach and its combination of normative internationalism with methodological nationalism, whilst the clash between the Washington Consensus and ideas within the two strands of the Southern Consensus serves to undermine these elements and creates tensions and pressures for a further paradigm shift.

The key feature of the sustainable human development approach which distinguishes it from the Washington Consensus, is that it espouses a different set of values. Whereas the Washington Consensus focuses on the promotion of GDP growth, and has been implemented through a top-down, donor-conditionality-driven and outside-expert-led, approach, the sustainable human development approach argues that the ultimate test of development practice is that it should improve the nature of people's lives, and advocates that it should be founded on participation and a more equal partnership between developing countries and aid donors.

This "people-centered" approach, which explicitly identifies itself as an alternative paradigm (see, for example, ul Haq, 1995, Part I), has been quite influential. An important strand of development research in the early 1990s has sought to refute its challenge by showing that Washington Consensus policies in fact serve to reduce poverty, increase employment and can, in themselves, deliver growth with equity, and that therefore social concerns are already adequately addressed by the mainstream approach. But the SHD alternative has promoted the introduction of poverty reduction as a key goal of development practice and increasing attention to possible LIEO-compatible relaxation of Washington Consensus poli-

cies in order better to achieve poverty objectives (see World Bank, 1990).

These changes have certainly made the Washington Consensus more humane. But at the same time, the SHD approach has had the effect of conserving key features of the worldview of the dominant paradigm. Although its different values have emphasized different indicators and weighting systems, particularly to capture levels of human development and poverty, these measures have reinforced a focus on short-term performance assessment. The substitution of multidimensional indicators of poverty for simple income poverty, for example, has added greater reality to the description of deprivation and more leverage for moral outrage, but at the cost of crippling effective analysis of the dynamics of change. Significantly also, the analytical basis of the SHD approach, which is itself somewhat loose, is methodologically nationalist. A central focus is the mismatch between economic growth performance and social performance and the ways in which domestic policy can rectify this mismatch to deliver more social achievements for any given level of GDP per capita. Even the apparent difference in values between the SHD approach and the Washington Consensus is less clear-cut than it appears. This applies whether human development is specified rigorously, as in Amartya Sen's capability approach which underpins the human development index, or through a vaguer focus on decentralization and participation. Sen's capability concept emphasizes freedom of choice which is quite consonant with the liberal perspective. [12] Moreover the project of making economic and social institutions work better through decentralization and the use of local knowledge, indigenous management practices and the participation, not of the masses, but of "local people" and "small communities," can be, and has easily been, fused into a kind of neoliberal populism. [13]

Whereas the SHD approach has made a moral critique of the Washington Consensus, the two strands of the Southern Consensus, Latin American neostructuralism and East Asian developmentalism, remain focused on economic growth as the central objective. [14] They offer however a different economic analysis of how growth occurs in late industrializing countries and on this basis propose a different policy orientation to the dominant paradigm.

From the Southern perspective, national economic growth involves a process of catching-up, in which national enterprises build up production capabilities and international competitiveness in a range of activities undertaken in more advanced countries. The structure of the economy changes as the relative importance of agriculture and natural resource exploitation declines while that of manufacturing activities increases, and as production progresses from less to more skill-, technology-, and capital-intensive activities. At the macrolevel, growth, structural change and productive upgrading is driven by a rapid pace of capital accumulation, which depends on increased domestic savings, investment, and exports, linked together in a virtuous circle of cumulative causation (ECLAC, 1990, pp. 48–49; ESCAP, 1990, pp. 13–14, 115, 151; UNCTAD, 1996, pp. 108–112). At the microlevel, this process is founded on imitation, adaptation and learning of internationally available technologies in order to reduce costs, improve quality, and introduce goods and services not existing in the country, and the diffusion of best practices from more advanced to less advanced enterprises within the country, including from foreign-owned to locally-owned firms (ESCAP, 1990, pp. 15–17 and pp. 92–95; ECLAC, 1990, pp. 64–71).

An important feature of the Southern Consensus is that it rejects the idea that growth with late industrialization can be animated using a general blueprint. Policy measures have to be adapted to initial conditions and the external environment, and change over time as an economy matures (ECLAC, 1990, pp. 97–102; UNCTAD, 1996, pp. 133–134; ESCAP, 1990, pp. 21–23, 140–141). It is possible however, to identify some general policy orientations which apply in all circumstances. [15]

First, the process of growth and structural change is best achieved through the "strategic integration" of the national economy into the international economy rather than either delinking from the rest of the world or rapid across-the-board opening up of the economy to imports and external capital. This means that the timing, speed and sequencing of opening, in relation to different types of international flows, should be decided on the basis of how they support the national interest in terms of promoting economic growth and structural change (Singh, 1994). Multilateral norms are not disregarded (ECLAC, 1996, p. 86; UNCTAD, 1996, pp. 156–157). As far as possible, however, import liberalization should

be gradual—to enable national enterprises to build up production capabilities and thus face external competition—and selective. Tariffs should also be complemented by special measures to promote exports (ECLAC, 1990, pp. 103–107; ECLAC, 1995, chapter VI; and for East Asian policies, UNCTAD, 1994, pp. 58–59). Capital account liberalization should also be gradual and should be managed, in coordination with domestic financial development, to ensure that capital flows are, as much as possible, additional to, rather than a substitute for, domestic resources, that they support increased investment rather than consumption, and that they do not undermine macroeconomic stability (ECLAC, 1995, pp. 285–291; UNCTAD, 1998, pp. 75–76, 101–106). Inward FDI should support the build-up of domestic production capabilities and exports, and this is not automatic but requires specific domestic policies (ESCAP, 1990, p. 132; ECLAC, 1990, p. 45; UNCTAD, 1996, pp. 131–133).

Secondly, growth and structural change is best promoted through a combination of a macroeconomic policy and what Latin American neostructuralists describe as a "productive development policy." The macroeconomic policy is growth-oriented. It seeks to reduce inflation and fiscal deficits, but also aims to ensure full utilization of production capacity and encourage the pace of capital formation (ECLAC, 1996, chapter V; ESCAP, 1990, pp. 17–19). The productive development policy involves a range of measures, coordinated with the trade policy, which are designed to improve the supply capabilities of the economy as a whole and also specific sectors within it, and to help private enterprise identify and acquire competitive advantages. These measures are founded on a dynamic interpretation of the principle of comparative advantage. In this forward-looking approach, the opportunities of current relative cost advantages are exploited to the full, but efforts are made at the same time to promote investment and learning in economic activities where comparative advantage can realistically be expected to lie in the immediate future as the economy develops and as other late industrializing countries catch up (ESCAP, 1990, pp. 148–149; OECF, 1991; UNCTAD, 1996, pp. 112–123; ECLAC, 1995, pp. 132–135, 159).

Elements of a productive development policy include: technology policy, financial policy, human resource development, physical infrastructure development, and industrial organization and competition policy (UNCTAD, 1994, pp. 57–69, ECLAC, 1990, pp. 107–148, ECLAC, 1995, pp. 161–190; ESCAP, 1990, chapter V, pp. 149–150). These elements can form part of, but they should not be simply equated with, a selective industrial policy. They are directed at improving productivity and competitiveness in agriculture and natural-resource based activities as well as manufacturing (ESCAP, 1990, pp. 22, 70–75; ECLAC, 1990, pp. 126–137). They entail a mix of sectorally-neutral as well as selective policies. Moreover their main goal is to accelerate the rate of capital accumulation and learning throughout the economy.

Third, the successful implementation of these development policies requires government-business cooperation within the framework of a pragmatic developmental State. The policies are implemented, as far as possible, through private initiative rather than public ownership, and through the market mechanism rather than administrative controls. But government plays a key role both in animating the "animal spirits" of the private sector and harnessing the aggressive pursuit of profits, which are the motor of the system, to the realization of the national interest. This requires the enhancement of state capacities rather than state minimalism. Policy should be formulated by a capable and pragmatic economic bureaucracy which, through various formal and informal ties with business, develops a common vision of development objectives and targets, and a common understanding of how these can best be achieved (ECLAC, 1990, pp. 94–96; Evans, 1998). But government must ensure that any support or protection for the private sector is conditional on investment, export or productivity targets, and also temporary. Policies should also focus on overcoming specific problems which impede the achievement of national development objectives, notably, missing markets and the lack of an entrepreneurial base, imperfections in technology and capital markets, risks of exporting, and dynamic complementarities between sectors which render competitiveness systemic rather than just dependent on firm-level capabilities (UNCTAD, 1994, pp. 50, 69; ECLAC, 1995, pp. 152–157; ECLAC, 1996, Box VI.1; JDB/JERI, 1993, pp. 53–56).

Fourth, distributional dimensions of the growth process are managed in order to ensure the legitimacy of the overall growth process.

This is primarily achieved through a production-oriented approach rather than redistributive transfers. That is to say, the main bases for a more equitable and inclusive growth process are wide asset ownership and the expansion of productive employment. Important policies in this regard are: agrarian reform and rural development policies; high rates of re-investment of profits and the establishment of profit-related payment systems; support for small and medium enterprises, particularly through financial policies; and broad-based human resource development (Campos & Root, 1996; ECLAC, 1992, pp. 15–27; UNCTAD, 1997, pp. 183–189).

Finally, regional integration and cooperation policies are identified as an important element of strategic integration (ECLAC, 1990, chapter VI; ECLAC, 1994, pp. 9–19; ESCAP, 1990, pp. 24–25; UNCTAD, 1996, Part II, chapter 1, especially pp. 75–79, 92–94). Such policies should support the goal of increased international competitiveness, for example, by promoting regional production chains, and also nurture the development of regional markets in order to reduce demand-side constraints on growth.

These substantive features of the Southern Consensus arise because Latin American neostructuralism and East Asian developmentalism are rooted in a totally different worldview to the Washington Consensus (Figure 3). This does not reject performance standards as a guide to policy, but actions are founded on historical analysis, particularly of long-term processes of late industrialization in the periphery of the world economy. A global analytical perspective is adopted and this has a realist rather than idealist view of the way in which market economies work. This recognizes vulnerabilities associated with integration into the international economy and also external constraints due to restrictions in access to advanced country markets, falling terms of trade for primary commodities and simple manufactures, cartelization in global markets, difficulties in gaining access to technology, and instabilities of the international financial system. Finally, the approach is normatively rooted in a distinctive form of economic nationalism. This is not ideologically committed to self-sufficiency or public ownership, nor hostile to foreign ownership in and of itself. It does not seek the appearance of catching up, through either imitating consumption standards, or setting up showcase industries. It respects multilateral rules and arrangements, engaging in their design, negotiation and interpretation. But its aim is to build international competitiveness as part of a long-term national economic project founded on the development of national capabilities.

Of the two strands of the Southern Consensus, the challenge from the East Asian development models has proved to be most powerful because these models have, in terms of their performance and according to the criterion of economic growth, "worked" spectacularly well. Since the early 1990s, the major fault line in development policy analysis has thus been the discrepancy between the policies which have been pursued in rapidly growing and industrializing East Asian economies and the policies advocated by the Washington Consensus. [16]

		Normative Framework	
		National	**Global**
Explanatory Framework	**National**		1. Washington Consensus 2. Sustainable Human Development
	Global	Southern Consensus • East Asian Models • Latin American Neostructuralism	Coming Paradigm Shift

Figure 3. *The configuration of development policy analysis: 1990s and beyond.*

Kuhn argues that the questioning of a paradigm begins when anomalies arise between paradigmatic expectations and actual events, and shows that numerous ad hoc modifications typically are made to maintain an old paradigm before the accumulation of anomalies requires, and the availability of a superior alternative paradigm enables, a paradigm shift. With increasing awareness of the discrepancy between Washington Consensus recommendations and East Asian development practices, such a process has occurred with the Washington Consensus. The discrepancy has been a key factor which has impelled the shift in the Washington Consensus from laissez-faire liberalization to the market-friendly approach. But more fundamental change has, at the same time, been slowed by semantic ambiguities, particularly centred on the key words "outward-oriented" and "openness" (see Gore, 1996a), and also further work to re-describe the East Asian experience as being compatible with the norms of the market-friendly LIEO. The World Bank's East Asian Miracle study—which was prompted by disagreements between the Japanese government and the World Bank on specific development policy mechanisms and which Wade (1996) has explicitly dubbed an exercise in the "art of paradigm maintenance"—is a particularly significant example of the latter (World Bank, 1993).

These re-descriptions have, like earlier characterizations, now been shown to have inconsistencies and ambiguities (Amsden, 1994; Rodrik, 1994). But the debate has taken yet another turn with the financial crisis in East Asia, and the apparent fall of the newly industrializing economies which hitherto had been claimed on all sides as "legitimating angels."

5. THE COMING PARADIGM SHIFT

The financial crisis in East Asia is significant for the future directions in development thinking and practice. Economic growth has fallen dramatically in developing countries and, just as there was during the crisis of the early 1980s, there is now increasing reason to call into question the effectiveness of dominant policies. Commentators of every persuasion have been quick to argue that events confirm their analysis. Some of those who support the Washington Consensus have reversed their earlier description of East Asian policies as market-friendly, and identified domestic mismanagement, in the guise of crony capitalism and excessive government intervention, as responsible for the crisis. On the other side, it is argued that the crisis is mainly due to speculative financial flows and contagion. But domestic policy, particularly fast financial liberalization, is also said to have played a role. The abandonment of government coordination of capacity expansion has led to overinvestment, and the lack of government supervision of the scale of the foreign debts of domestic companies has precipitated overexposure to external debt. Finally, the IMF bailout packages are said to have exacerbated the problem. At best they are seen as a misdiagnosis; at worst, an attempt to use the crisis further to impose in a deeper way LIEO norms on domestic economic activity.

Although these debates are still playing themselves out, it is becoming increasingly unconvincing to attribute the crisis solely to domestic mismanagement (see, for example, Chang, Palmer & Whittaker, 1998), or analytically to separate external and internal factors. Moreover the Washington Consensus has cracked in the practical sense that real differences of opinion have emerged in Washington, between the IMF and the World Bank, on the causes of the crisis and how best to handle it. One important opinion-leader, Paul Krugman (1995), has already written the obituary of the Washington Consensus. After the Mexican crisis of 1994, he argued that the major mechanism through which its policies have worked is a speculative bubble in emerging markets in which policy reforms attracted private capital flows, and the attraction of the flows stimulated policy reforms, and that this bubble had now burst. In effect, he exposed market-friendly policies as actually being market*s*-friendly – financial markets, that is. Similarly, Joseph Stiglitz (1998a,b) has argued that there is a need for a "post-Washington Consensus," a new paradigm. This should seek to achieve broader objectives—embracing a focus on the living standards of people and the promotion of equitable, sustainable and democratic development. It should use a wider range of instruments to build markets as well as to correct market failure, and to foster competition as well as liberalization and privatization. It should also adopt limited forms of regulation, if necessary controlling short-term international capital flows. Finally change should not be imposed from outside but requires owner-

ship, participation, partnership and consensus-building.

It may be too early yet to announce the fall of the Washington Consensus. Stiglitz's proposed new paradigm contains some important shifts on values, continuing the incorporation of the goals and implementation style advocated by SHD, and, perhaps more significantly, it argues for a return to the notion of a development strategy, based on a long-term perspective, respecting historical specificities and with a more holistic approach centred on the transformation of societies. Development should no longer be a monopoly of economists. But the proposed post-Washington Consensus consensus can also be interpreted as simply a change to preserve the old order by making it more effective as well as more humane. In elaborating the new paradigm, Stiglitz (1998b, p. 34) explicitly states that a key task is to lessen the momentum of an expected swing of the pendulum of opinion against openness. The proposal retains a strong commitment to the fundamental principles of a LIEO founded on open trade regimes, competitive markets and open societies. But, by de-linking trade and financial liberalization and then analytically separating short-term from long-term international capital flows, it reduces the risk that in the aftermath of the financial crisis the liberalization of external economic transactions will be called into question as a whole. Through this analytical splitting, what previously was propagated as a total package can now be taken to be a more flexible menu of options, and any possible backlash against liberalization can be more easily contained.

Whether or not Stiglitz's courageous intervention is a rupture with the past or the preservation of the old regime, more profound change is inevitable. This is because the forced marriage of global liberalism and methodological nationalism, the latter providing the empirical justification for the internalization in domestic policy of the prescribed international norms of the former, is inherently unsustainable. The only circumstances under which methodological nationalism is a completely coherent approach to explanation is if national economies are completely isolated and closed from outside influences. The more that the norms of a LIEO are adhered to, the more that national economies become open to outside influences, the less tenable methodological nationalism becomes as a form of explanation. The dominant paradigm is thus unstable. Its ideology and methodology are in contradiction.

The coming paradigm shift will be driven by the main "workable" alternative, East Asian models, politically strengthened through their convergence with Latin America neostructuralism, and extended to Africa and the least developed countries. But while this approach can offer a more effective way of developing countries than the Washington Consensus, it does not, as it stands, provide an ideal alternative paradigm. This is not because the current financial crisis has somehow nullified the development transformation which has occurred in East Asia—though the crisis demands closer consideration of the issue of "development strategy in the age of global money." [17] Rather it is because it remains a moot point whether it is possible to achieve similar results to those achieved by East Asian countries in their high-growth period, given the widespread, simultaneous adoption of past East Asia-type policies. Moreover, though exaggerated, some new global rules, particularly concerning technological borrowing and adaptation, may inhibit the replication of some of these policies.

In the future, the full globalization of development policy analysis seems inevitable (Figure 3). This will entail the explanation of national development trends in a global context, and also the elaboration of alternative normative principles for the international regimes which constrain and enable national policy choices. Signs that such a spatial frame shift is now occurring are evident in diverse and unconnected analytical arenas. These include: attempts to link international trade theory to labor market performance (Wood, 1994); the development of the new economic geography (Ottavino & Puga, 1998) and sociological analysis of global production chains (Gereffi, 1995); work on global environmental commons; and the emergence of social exclusion as a concept of deprivation (Gore, 1996b). The spatial frame shift is likely to be linked to the re-introduction of a historical perspective, which is already becoming evident, for example, in analyses of the history of globalization of economic activity (Bairoch, 1993; Bairoch & Kozul-Wright, 1998; Brenner, 1998). But with the rejection of grand narratives, bringing history back in should not presage a return to the old teleological historicism, but rather identify alternative situations and possible development paths, and thereby inform a

pragmatic commitment to progressive change in favor of present as well as future generations. The values which will glue together the new way of seeing the world are, like the methods of global analysis, as yet unclear. The most likely prospect is that we shall be blown into the future facing backward, embracing a form of embedded communitarian liberalism, which seeks to reconcile the achievement of national, regional and global objectives, and to marry universal values with a respect for diversity. But this is still waiting to be born.

NOTES

1. That is, a constellation of beliefs, values, techniques and group commitments shared by members of a given community, founded in particular on a set of shared axioms, models and exemplars (see Kuhn, 1970). The term "paradigm" is used in this sense throughout this paper.

2. For an extended discussion of the importance of frames in policy analysis, see Schön and Rein (1994). The notion of the frame is also pivotal in Amartya Sen's work on development evaluation, though he uses the term "informational basis" of evaluative judgements rather than "frame."

3. For deeper discussion of these debates, and the role of international development agencies in them, see Arndt (1987), chapters 3 and 4.

4. This was a complex historical process. As Kuhn (1970) explains, the timing of paradigm shifts is influenced not simply by scientific and policy debate, but also broader political and ideological configurations. These broader changes, which include the election of conservative political leaders in the United Kingdom, United States and Germany in the late 1970s and early 1980s, will not be dealt with here. For a subtle account, which locates changes in development thinking and practice within a broader counter-revolution against Keynesian economic policies, see Toye (1993).

5. For these two lines of argument, see various *World Development Reports*, particularly World Bank (1983, 1986, 1987). The last, as well as criticizing deviant policies, is an exemplar of the mobilization of East Asian experience to support key principles of a LIEO.

6. For an extended discussion of methodological nationalism, see Gore (1996a).

7. The term "global liberalism" is used here as shorthand for various types of LIEO, which may or may not allow a circumscribed role for national government intervention in market processes.

8. The term "historicism" is used here in the most general sense given by Popper (1960, p. 3). It does not imply that planning which aims at arresting, accelerating or controlling development processes is impossible, though some historicists would adopt this stronger position (Popper, 1960, pp. 44–45).

9. Exemplars are Rostow (1960) and Chenery and Syrquin (1975).

10. Lyotard (1984) sees the main criterion which is used to legitimate knowledge after the questioning of the grand narratives as "performativity," which is understood as assessment of the performance of systems in terms of the best input/output relations (p. 46).

11. Various academic books and articles are associated with these policy reports. Key elements of Latin American neostructuralism, which developed as a response to the weaknesses of both neoliberalism and import-substitution industrialization, are set out in Bitar (1988), Ffrench-Davies (1988), Sunkel and Zuleta (1990), Fajnzylber (1990) and Sunkel (1993), and are surveyed in Kay (1998). A Japanese view of the contrast between East Asian developmentalism and the Washington Consensus is set out in OECF (1990), whilst Okudo (1993) and JDB/JERI (1993) discuss the Japanese approach, focusing on two important policy mechanisms which diverge from the tenets of the dominant approach—two-step loans and policy-based lending. UNCTAD's reconstruction of East Asian developmentalism, which was elaborated independently of Latin American neostructuralism, draws on analyses of the Japanese development experience, particularly Akamatsu (1961, 1962) and Shinohara (1982), and key elements are set out in Akyüz and Gore (1996) and Akyüz (1998).

12. For an outline of this approach see, *inter alia*, Sen (1993), and an analysis of the limits of its moral individualism is made in Gore (1997).

13. For examples of a loose approach to poverty analysis based on the concept of sustainable human development, see UNDP (1995a,b); but Banuri *et al.* (1994) attempt to give a more rigorous specification of

the concept through the notion of social capital. An interesting recent development has been to link sustainable human development to the promotion of human rights discourse, which some see as an alternative global ethics to neoliberalism. The increasing incorporation of the voice of nongovernment organizations (NGOs) into or alongside UN social deliberations is also affecting the SHD approach. A good discussion of some of the notions which animate these discussions is Nederveen Pierterse (1998).

14. It is difficult to identify an African strand to the Southern Consensus, but Mkandawire and Soludo (1999) seek to develop an African alternative to the Washington Consensus, and UNCTAD (1998, part 2) has drawn implications of the East Asian development experience for Africa.

15. There are some divergences between the East Asian and Latin American approaches. The latter gives more prominence to environment and democracy, is less committed to aggressive sectoral targeting (ECLAC, 1996, pp. 70–71; Ocampo, 1999), and has a more refined policy analysis of the process of financial integration than East Asian developmentalism (ECLAC, 1995, Part 3). But their similarities, and common disagreements with the Washington Consensus, are more striking.

16. For an interesting alternative interpretation of this fault line, see Yanagihara (1997) who contrasts an ingredients approach and a framework approach and seeks ways of synthesizing them.

17. To paraphrase Yanagihara and Sambommatsu (1996).

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