Washington consensus: the Williamsons are not to blame.

Leonard E. Iyoha
Ehikoy International Co. Limited, Bangkok, Thailand
Francis I. Igberaese
School of Higher Education and Professional Studies
Institute of Continuing Education, Benin City, Edo State-Nigeria

Keywords
Washington consensus, IMF, World Bank, fiscal discipline, exchange rate, trade liberalisation

Abstract
The paper is a theoretical review of the content of the controversial Washington Consensus, which has been blamed as the source of the economic woes of the Less Developed Countries (LDCs) including Nigeria. Given its background, key issues, impact on LDCs, critique and impacts in Nigeria, the paper examines the implications on Small and Medium Enterprises (SMEs) in Nigeria and finds that the intents of the policy prescription by John Williamson has been misinterpreted and abused by various organizations like the International Monetary Fund and Countries, which do selective implementations of its elements as they march with the Leaders selfish motives. It holds that the Washington Consensus is a good drug in the hand of bad practitioners. It concludes that since no economic policy, no matter how sound can survive corruption; the government of LDCs should purge themselves of corruption and not blame Williamson for their economic woes.

Background of the Study

In 1989, economist John Williamson laid down some policy prescriptions as a base-line of directions for nations in need for assistance from international economic entities such as the World Bank and International Monetary Fund (IMF). These prescriptions had been referred to as Washington consensus (rightly or wrongly), and since then it has been referenced many times, and has become a general term of a dis-paradigm to those who are opposed to free-market fundamentalism. But the ideas in Washington consensus were not new to Williamson, they represent a distillation of the common thread among the advice most often given by the IMF, the World Bank, the US treasury and other lending bodies. However, it was originally intended to address the very real problems of economic woes arising from debt crises occurring in Latin America at the time. It was only later it was used to handle a wide array of other situations.

Economist Williamson was testifying before a congressional committee in favour of the Brandy plan. He argued that it would be good policy to help the debtor countries overcome their debt burden when they were making profound changes in economic policy along the line of Balasa, Bueno, Kuezynski and Simonson (1986). According to Williamson (2004), there was rank disbelief in the congress that there were significant changes in economic policies and attitudes in Latin America. He and some other economists then decided to convene a conference in Washington to test the extent to which he was right, to put the changes in policy attitudes on record. He was challenged by Hans Singer to spell out what meant, which emphasized the need to be very explicit about the policies that he thought of. According to Williamson, three big ideas are involved: Macroeconomics discipline, a market economy and openness to the world, at least in respect of trade and foreign direct investment. (Council on Hemispheric Affairs, 2006).

Key Issues

The ten points of the Washington consensus are themselves intentionally somewhat vague, as they were meant to represent a baseline. Williamson himself later admitted that they were not supposed to be called a consensus (See Williamson, 2004). He was most concerned with macro-economics and financial management and covered topics like fiscal and marketing policy, the exchange rate, trade and the regulatory framework, not touching on aid issues or on developed country policy. Williamson ten bullet points as outlined by Maxwell (2005) include the followings:

- **Fiscal Discipline:** Budget deficit should be small enough to be financed without recourse to the inflation tax, which implies a primary surplus of no more than 2% of GDP
- **Public Expenditure Priorities:** Public policy reform consist of redirecting expenditure from politically sensitive area, which typically receive more resources than their economic returns can justify, such as administration, defense, indiscriminate subsidies and white elephant, towards neglected filed with high economic returns, and the potential to improve income distribution, such as education, primary health care and infrastructure.
- **Tax Reform:** Broadening the tax base and cutting marginal tax rates aimed at sharpening incentive and horizontal equity without lowering realized progressively.
- **Financial Liberalization:** The ultimate objective is market determined interest rate, the abolition of preferential interest rate for privileged borrowers and achievement of a moderately position real interest rate.
- **Exchange Rate**: A unified exchange rate for trade transactions. This should be set at a level sufficiently competitive to induce a rapid growth in non – traditional export, and managed so as to assure exporters that this competitiveness will be maintained in the future.
- **Trade Liberalization**: Quantitative trade restrictions should be replaced by tariffs, and these should be progressively reduced until a uniform low tariff in the range of 10% and 20% is achieved. Some disagreements exist about the speed of tariff reduction as justification of liberalization during recession and payments deficit.
- **Foreign Direct Investment**: Impeding barriers on the entry of foreign firms should be abolished; foreign and domestic firms should be allowed to compete on equal terms.
- Privatization: State enterprises should be privatized.
- **Deregulation**: Government should abolish regulation that impede the entry of new firms or restrict competition, and ensures that all regulations are justified by such criteria as safety, environmental protection, or prudent supervision of financial institutions.
- **Property Rights**: The legal system should provide secure property right without excessive cost, and make these available to the informal sector (also see Mc Guigen, 2011; Williamson, 1994; Willianson 2005; Birdsell & Fukuyama, 2011 and Rosser, 2000)

Impacts on Less Development Countries

The Washington consensus has seen limited results as has been applied in various countries suffering economic crises. It has been largely blamed for destabilization in Less Developed Countries (LDCs), particularly that of Argentina, to the extent that John Williamson himself at a point has to note that in many cases, the result of its implementation had been disappointing, noting also some flaws and suggesting how it might be improved (see Williamson 2004). Latin America and many other regions in response to Washington consensus have tried to move the opposite direction because they feel many of its terms offer absolutely no assistance to weaker economies. The question is: how many of the LDCs can restrict their associations with the United State? The Washington consensus is new form of capitalism policy, including laissez fair policy, an anti Keynesian state intervention economic policy. If a country seeks financial assistance, then they have to follow the Washington consensus 10 rule policy (McHuigan, 2011).

According to Maxwell (2005), the Washington consensus has been replaced by the new meta narrative' which emphasis the Millennium Development Goals (MDG), as nationally owned poverty reduction strategies. Birdsall and Fukuyama (2011) believe that few developing countries consider themselves to have fully adopted the model of free market. But the recent economic melt down put those objecting to free market to test. There was no violent rejection of capitalism, even in the developing world. In 2009, even China and Russia – two former neo-capitalist states, made it clear that they had no intention of abandoning the capitalist model, which the Washington consensus represents (see Birdsall and Fukuyama, 2011). The authors noted that no leader of any developing country has backed away from commitment to free trade or global capitalist system.

Rodrik (2008) noted that the United States has provided Latin America loans conditional on privatization, deregulation and other forms of structural adjustment for thirty years, which was abysmal for Latin America that grew less than 1% per year in per capita terms during the period, in contrast with 2.6 during the period 1960 – 81. The author noted that East Asian, on the other hand, has grown 6.7% per annum in per capita terms since 1981, actually up from 3.5% in that same period because of its state managed globalization.

There has been misunderstanding of Washington consensus, causing political upheaval and revolution in many developing countries: the crippling protest that prompted the outing of President Calos Mesa of Bolivia on June 6, 2005 because the citizens were knee about regaining control over the previously privatized oil and gas industries. Latin America countries of Equador, Peru, Argentina, Chiapas and Mexico have been plagued by revolution because of the "failure" of the Washington consensus prescription (Council for Hemispheric Affairs, 2005). And after the International Monetary Fund has failed for more than a decade to spur growth through its appropriated version of the Washington consensus, it's left the Latin America worse off than it found it.

Critique of Washington Consensus

A staunch opposition of Washington consensus is Joseph Stiglitz, who was a World Bank Economist and leading critic of the International Monetary Fund (IMF). In his "Globalization and its Discontent" (2002), he attacked the consensus and show the danger in launching fiscal conservatism, widespread privatization and broad trade liberalization as a panacea for economic development. Although stiglitz acknowledged that lowering interest rate and cutting government spending encourage individual savings, reducing unnecessary government programmes and strengthening exchange rate, low interest rate to force banks in emerging markets to accept loans based on devalued currency, and cut in government spending can lead to collapse of financial institutions. He noted that government intervention of Keynes is the only source of capital that prevents market collapse.

On liberalization of trade, Stiglitz (2003) noted as follows: *"developing countries could attract firms to extract their natural wealth, provided they gave it away cheaply enough, worse still, much of the money was speculative … not money coming in while the going was good, but fleeting the moment matter looked less rosy"*.

He was talking of Washington consensus not protecting the vulnerable local industries of the developing nations. Stilitz (2005) called privatization "a transition of rapid corruption", which eliminates the supposed benefits of competition.

However, critics mostly base their opposition on the fact that the IMF, instead of seeing the Washington consensus as a baseline, used it as a neo-liberal condition for funding development projects of developing nations, which was not the intent of the consensus. Some other critics of the Washington consensus as found in literature include, Maxwell (2005), who accused the consensus of not paying attention to right, equity and social justice, to the problems of infant economies and aid policy, Higgot (2007), who saw the consensus as worse excess of globalization and called for frequent state intervention to play a critical role, and Jomo (2005) who noted that the Washington consensus has failed to deliver in its promise of economic growth.

In all these and other criticisms found in literature, it was a matter of misconception, misunderstanding and abuse of what the Washington consensus is all about. The abuse was started by IMF who capitalized on the baseline ten point Washington Consensuses and made a neo-liberalism out of it for countries in need of funds. Even Williamson had recognized most of the points raised in these criticisms, and had made provisions for them. For example, he had recognized that some disagreements exist about the speed of tariff reduction, as justification of liberalization during recession, and Balance of Payments deficit. As also noted by the Council on Hemispheric Affairs (2005), the Washington Consensus is a misunderstood and poorly implemented development strategy.

The Washington Consensus, though it was not supposed to be called a consensus, could be described as drugs prescribed to particular patients (Latin Americans) whose illness requires the attention of a doctor. It was not to be widely applied to all situations by all policy makers in any economy. In the case of the relationship among drug, the patient and the doctor, it does happen that proper diagnoses are done to different patients before prescriptions. Even patients with the same illness can at times been subjected to different drugs because of different side effects resulting from the administration of the drug. So that the best medical practitioner could prescribe the best medicine, yet the patient dies as a result of abuse.

In relation of the above to the Washington consensus, this paper draws the following analogy.

"We cannot continue to blame a doctor who prescribes drugs for a patient in dire need of cure of his diseases, when the patient or others with similar illness abuse the drug. What the post Washington Consensus or the Meta narrative economists should think of is how to update and expand the paradigm because Washington Consensus is just and equitable, particularly at the time it was prescribed. Perhaps the only problem with the paradigm is the name, while has imposed a consensus on all of us. This even John Williams has long acknowledged as seen in his explanation of Washington Consensus in 2004.

Washington Consensus and the Nigeria Experience

Nigeria is one developing country to cite as an example of a patient abusing the prescription of a doctor to other patients. Nigeria leaders and policy makers may not be aware of the detail document of Washington consensus, but its elements have form debates in the Country, with many implemented without success. As earlier noted, the International Monetary Fund has over the years misapplied the spirit of the Washington Consensus, which it recommends and helps to propagate in the developing nations. Nigeria has also become a victim of this misfortune, more so that these elements have fallen in the hands of corrupt and selfish leaders.

The Structural Adjustment Programme (SAP):

The Anti-SAP riot of 1989 was occasioned by the attempt of the Military government to implement the various recommendations of the IMF, and not the Washington Consensus. The most crucial elements were on trade liberalization, external debt management, removal of petroleum subsidy and deregulation of the oil sector, as well as privatization. However, the fiscal discipline and public expenditure priorities, which are also elements of the Washington Consensus were not considered important by the then government of Nigeria. Subsequent military governments continued to do this kind of selection implementation and at times, a complete violation, either because of political gains or as an act of corruption. For example, prior 1996, the government fixed the exchange rate at twenty-two naira per dollar but public debt continued to mount due to lack of fiscal discipline and public expenditure management. As against the prescription of the Washington Consensus, administration and defense, rather than education and economics continued and still continue to take the highest percentage of the national budget.

Deregulation and Subsidy Removal

From the civilian regimes of 1999 till date, deregulation, subsidy removal on petroleum products and privatization have continued to dominate the scene, and in some states, tax reform in the “wisdom” of the leaders by broading tax base, but without sharpening incentives and horizontal equity. As Jomo (2005) asked, economic reform for whom? Ayobolu (2007) posits that with a double digit inflationary rate of 20%, the Nigeria economy is in the totters. The report also posits that even though the IMF has candidly advised African countries to find a way of methodically achieving a single-digit inflation rate, Nigeria has not been able to achieve this feat as a result of frequent increase in the prices of petroleum products and its adverse multiplier or ripple effect on all other sectors of the national economy. Usually, the increase of prices of petroleum products has again occupied front burner in 2011 national debate of petroleum subsidy removal (NTA, 2011; AIT, 2011).

Abubakar’s (2009), in his fuel subsidy scandal, posits that it has become annual ritual, which is now as familiar as the usual normal annual government budget pronouncement. Besides the 1982 fuel price hike done under the austerity measures, there have been violent street protest by the organized civil societies, Nigeria Labour Congress, students and other professional associations.

From June 2000 to 2007, Nigeria witnessed eight fuel hikes, with the last on May 23, 2007 (just six days to the end of that administration). Most recently on the First of January 2012, Nigerian experience mother of all fuel price hike, which resulted in protest that crippled the economy for days before the president offered a reduction, still higher than the previous price. Fundamentally, the main drivers of the deregulation of the Nigeria domestic fuel prices are the two Bretton Woods institution of the World Bank group and the International monetary Fund (Abubakar 2009), and not the Washington Consensus, which argue that the deregulation of domestic prices, (and not import dependent goods), elimination of speculation, rent seeking and other sharp practices usually associated with government will depoliticize the system.

As a matter of fact, since 1986, successive Nigeria governments have been implementing 'Washington Consensus' even before Williamson in 1989. Hence to put the issues in proper context, it is the Breton Wood institution policies in the hand of corrupt and desperate Nigeria leaders, and not 'Washington Consensus' that are the problems.

Privatization:

Nigeria privatization exercise has been a tale of woo. The sensitive question of whether privatization itself is a good economic policy has been answered both in literature and comparative evidence of countries' result, and in limited sense in Nigeria. Is'haq (2011) opines that 80% of government companies privatized have failed. This was also substantiated by the testimonies from the present and past Director Generals of the Bureau of Public Enterprise- the agency for privatization in Nigeria- during the Senate committee hearing (NTA, 2011). One of them was quoted as pointing accusing finger at the then president and his vice as at the time it was set up. This tells a lot of corruption. As Is 'hag pointed out, adherence to the "doctrine of Washington Consensuses" had become the ruling orthodoxy in Nigerian bourgeois. Hence, privatization has formed the worst manifestation of crony capitalism, when choice national assets were sold to the ruling elites. And this was not the spirit of the Washington Consensus.

A good example of sincere privatization and deregulation in Nigeria is in the communication sector, which manifested into a fast growing economy and also results to increase in welfare gain for the citizens. Again, the unconfirmed but strong accusation that the then president (1999-2007) wanted to corrupt the system by the attempt to enrich himself with agreement with communication giant, MTN to add the number '1' with the hash key after the dialed number would have collapsed the system and lead to dead-weight loss for citizens.

Implication for Small and Medium Enterprises (SMEs) in Nigeria

The three basic ideas of the Washington Consensus, namely: Macroeconomics discipline, a market economy and openness to the world, have positive implications for the development of SMEs in Nigeria and in other developing countries. A discipline economy surely leads to sound macroeconomics convergence for cross country union, development of financial sector, low inflation and encouragement for the banks to support the small businesses. A free market economy enhances to healthy competition among businesses to the extent that it can lead to concentration, in such a way that the outputs of one can be the inputs of another. This means proximity to both inputs and outputs market, thereby cutting transaction costs and increase profit. Openness, which is globalization, increases productivity through access to world market. Since no nation is self sufficient, it follows that outputs of SMEs in one country such as technology, can actually be helpful to another, and when this happens, expansion will surely result with more profit and encouragement for the owners of such businesses.

Specifically, all the ten point Williamson prescriptions are themselves the way to for the development of SMEs in Nigeria, and indeed in the developing countries. This was the same idea behind the 1986 SAP in Nigeria, in order to broaden the productive base of the economy through deregulation and privatization. Again, insincerity of purpose and corruption made mockery of the whole programme. The popular reason for the failure of the power sector in Nigeria is because it is excessively government owned. This has retarded SMEs growth, as costs of doing business rise because of increase demand for petroleum products for alternative power supply. As noted earlier, the privatization of the communication sector in Nigeria has not only led to its growth, but also unprecedented spring of so many SMEs in that other sectors. The deregulation in that sector has added to a buoyant economy, provides employment and has multiplier effect on other sectors. But whenever the leaders misapply these policy prescriptions, as have mostly be the case, the consequences become dying for SMEs. This has been the case of good drugs in the hands of a medical practitioner, yet the patient died. And so, corruption, lack of policy direction, and not Washington Consensus, should be blame for the poor development of SMEs in Nigeria.

Summary, Suggestions and Conclusion

The paper mainly reveals that the economic policy prescriptions of Washington Consensus were not the problem. They are good drugs in the hands of bad medical practitioners and abused by the patients they were not diagnosed for. The Breton woods institutions and the various corruptions and inefficiencies of government institutions are to be blamed for the economic woos in the Less Developing Countries and Nigeria, who have attempted to implement the elements of Washington consensus. Since there are substantial evidence that policies like deregulation and privatization had led to economic growth in for example, the communication sector in Nigeria, this should be replicated in other sectors, only when the country is able to overcome corruption and strengthen her institutions for effective service delivery.

It is therefore suggested that since the prescriptions of Washington consensus are country specific, Nigeria and other LDCs should be sincere enough to know when not to do the same thing out of the insanity from the Breton Wood institutions. For example, before considering subsidy removal from product, such product must not be import dependent, the institution must be strengthened, and corruption must not be allowed to overtake the system as in the privatization policy in Nigeria.

It is therefore the conclusion of this paper that no economic policy can be good to survive in a corrupt system and weak institutions. No prescription from the best doctor will save a dying patient when it falls in the hands of a bad medical practitioner and abused by the patient. Hence, it re-emphasis that the Washington consensus is not the problem, but the Breton woods institutions and poor leadership in the various countries.

A stunch recent revelation of an order by the Attoney General to the Inspector General of police to arrest the Amosike brothers, Fedelis and Noel, over their alleged roles in the illegal purchase of the government owned Daily Times, estimated at N3 billion, with false representation to the BPE is not Washington consensus but corruption and inefficiency (Vanguard, 2011). And as the delusion continues in Nigeria, Is'haq (2011) wrote that it is the height of insanity to do the same thing over and over and expect a different result

References

Abubaka, A.N. (2000), *Fuel subsidy scandal and impending fuel subsidy removal*. Sahara Reporters, June 6.

Ayobolu, J. (2007), *Washington consensus and the Nigerian economy.* Daily Trust, July 3.

Belassa, B.; Bueno, G.; Kuezyriski, P. and Simonson, M.H. (1986) *Towards renewed economic growth in Latin America*. Institute for International Economics, Washinton.

Birdsall, N. and Fukuyama, F. (2011), *The Post – Washington consensus, development after the crisis.* Council on foreign Relation, Doha.

Council on Hemispheric Affairs (2005), *The IMF and the Washington consensus: A misunderstood and poorly implemented development strategy.* July 19,2005. Retrieved: imfandwashington.html, 19 September, 2011.

Higgott, R. (2007), *Global governance without politics: the limits of the post Washington consensus*. ESRC, centre for the study of Globalisation and Regionalization, University of Warwick. Retrieved. www.warwick.ac.uk/fac/soc/csgelwpapers.html, 19 September, 2011

Is'hag, M.K. (2011), *Nigeria's privatization delusion.* Sahara Reporters, June 4.

Jomo, K.S. (2005), *Economic reform for whom? Beyond the Washington* consensus. Post-autistic Economic Review, No. 35, December 2005.

Lucian, D. F. (2005), *Why did the Washington Consensus policies fail?* Video presentation, Center for International Private Enterprise Development Institute, Washington. Retrieved: www.developementinstitute.org, 19 September, 2011.

Maxwell, S. (2005), *The Washington consensus is dead! Long live the meta-narrative.* Working paper 243, Overseas Development Institute, London, January 2005.

McHuigan, B. (2011), *What was the Washington consensus?* Wise Greek Conjecture Corporation

Nigeria Television Authority "NTA" (2011), *Private sectors adopt petroleum subsidy removal.* Net Work News, 13, October, 2011 @ 9.00pm.

African Independent Television "AIT" (2011), *Reaction on petroleum subsidy removal,* AIT National New, 14 October, 2011 @ 8.00pm.

Rodrik, D.; Subramanian, A. and Trebbi, F.(2002), *The primary of role institution over geography and integration in economic development.* Discussion paper 3643. Centre for Economic Policy Research, London.

Rosser, J. B. (2000), *Failure of the Washington consensus on inequality and underground economy in the transition economics*. James Madison University, Harrisonbury.

Stiglity, J.E. (2002), *Globalization and its discontents*. New York and London Norton.

Stiglitz, J.E. (2003), *Dealing with debt: How to reform the global financial system*. Harvard international Review (spring).

Stiglitz, J.E. (2005), The *"Post-Washington consensus", consensus, processed*, *initiative for policy dialogue*, Columbia University, New York.

Vanguard Newspaper (2011), Friday, May 27th

Williamson , J. (1994), *The political economy of reform.* Institute for International Economics, Washington DC.

Williamson, J. (2004), '*A short history of the Washington consensus.* Paper presented at foundation 100B conference on From the Washington consensus: Towards a new global governance. Barcelona, September, 2004.