

# Polemics of the Washington Consensus

## The Case for a New Global Human Order

by Rajendra Rampersaud

Life is never a straightforward process. Even in the period of euphoria when neoliberal policies dominated economic thinking in the past decades, one still had to be prepared for unusually "bad weather." The neoliberal economic policies that manifested in the famous Washington Consensus were considered the blue print for success in developing countries. This blue print was fully endorsed by the seats of orthodoxies: the International Monetary Fund (IMF) and the World Bank in the world of economic and development policies.

Today, after more than three decades of policy implementation many nation states have slipped into a condition of financial and economic crisis. Those policies are now being subjected to the most rigorous debate and critical analysis as the righteous policy maker now feels the burning need to do something even more radical. In this regard it is rather appropriate to revisit the call for a New Global Human Order (NGHO) made by the late President of Guyana, Dr. Cheddi Jagan in the period of the mid-1990s when the neoliberal policies reigned supreme.

The early success of neoliberal policies achieved by the Anglo American axis, allowed for the Multilateral Financial Institutions to feel justified in imposing on developing countries what they considered as the absolute truth:

**stabilize, privatize and liberalize in order to develop.**

This mantra became the centerpiece for a wave of economic reform that gripped Eastern Europe, Sub-Saharan Africa and Latin America and the Caribbean. In the financial sector, the liberalization process went much faster and even further than Williamson the intellectual author of the *Washington Consensus* had initially conceived. Many developing countries that went along this route found themselves in the middle of a virtual traffic jam in a one way street.

One conclusion that has now become universally accepted by both skeptics and proponents of the Washington Consensus (after decades of policy implementation and advice from the epicenter) is that things did not work, the way they were expected to.

Dani Rodrik (2006) summarized the results of these reforms after consulting the IMF and World Bank publications and

data as follows –

**First-** there were deep and prolonged collapses in the output of countries making a transition from planned centralized economies to market economies. Decades into transition, many such countries have not even caught up to their 1990 levels of output.

**Second** – Sub-Saharan Africa failed to take off, despite significant policy reforms and continued generous foreign aid from the western powers. The few successes – Uganda, Tanzania for example, continue to remain fragile and vulnerable.

**Third** – Latin America recovery proved short lived. The 1990s as a whole saw less per capita GDP growth than in the 1950-1980 periods, despite the dismantling of state led, populist and protectionist policies in the region. Argentina, the "poster boy" of Latin America's "economic revolution" came crashing down prematurely in 2002.

The list of failures of the countries that jump started and overtly imposed market fundamentalism on their people, is quite remarkable. On the contrary, the success story that is being alluded to by International Agencies has been of countries that did not follow the Washington Consensus policy landscape.

While it is true that China, India, Chile, Costa Rica, Botswana, Vietnam etc have all shown an increased reliance on market forces, their practices remain highly unconventional...with high levels of protectionism, selective privatization, extensive industrial policies and fiscal interventionist policies that support employment and productive output.

Another good example of independent home grown economic policies has been the case of Malaysia during the well known Asian Crisis (1997). The then President of that country, Mohamed Mahathir sent both the IMF and World Bank packing, rejecting out of hand, their policy advice and money.

Interestingly, Malaysia imposed capital control, defended its exchange rate and conducted expansionary monetary and fiscal policies during the crisis. The end result was that Malaysia recovered much faster than those countries that took IMF/World Bank prescription. Malaysia did not suffer eco-

conomic, social and political disintegration.

Currently, as the world economy is besieged by the Global Financial Crisis, the salient feature of this crisis is unlike past crises. This one has its origin in the developed world, primarily the USA, considered the bastion of financial sophistication. No blame can now be laid at the feet of the administration of developing countries.

Furthermore, the contagion effect of this crisis is now badly affecting developing countries. The IMF/World Bank describe the crisis as having first round and second round ef-



*In election after election, Latin Americans are choosing leaders who promise a shift from traditional elite-driven politics to more participatory and active democracies that focus on fulfilling the needs of the poor. Yet in 2003, the IMF demanded Bolivia cut more than \$250 million, or 8 percent, of the national budget. The Bolivian government tried to warn the IMF that this would incite popular unrest. Bolivians deposed two presidents in as many years through protests against these types of policies and then elected Morales. Clockwise from top left: Chilean president Michelle Bachelet, Bolivian president Evo Morales, Brazilian president Luiz Inácio "Lula" da Silva, and former Mexican presidential candidate Andres Manuel Ló Obrador.*

fects, after initially refusing to accept that a global crisis was in the making.

\* The first round will badly affect emerging market economies that are integrated in the world capital markets.

\* The second round will affect the Less Developed Countries that will suffer from lower export earnings, decline in FDI flows and remittances.

The fall out from this crisis is expected to cost developing countries some US \$700 billion in 2009, according to the

World Bank. Countries that are able to put safe guard mechanisms in place to deal with the fall out from this crisis, are those with the fiscal space that did not follow the "conventional wisdom".

Dr. Cheddi Jagan, a visionary in his own right, passionately advocated a New Global Human Order in the mid nineties. This was partly as a safeguard mechanism to any unpredictable crisis, but mainly to put developmental issues at the center of a given country's economic strategy. The New Global Human Order which he conceived envisages the following objectives:

1) the creation of a new partnership between developed and developing countries based on full cooperation for their mutual benefit.

2) a development strategy centered on people.

3) increasing production and productivity with equity through the application of science and technology.

4) the creation of a global development fund – financed by cuts in military expenditure, along with a tax on polluters and speculative capital.

A tax on speculative capital usually referred to as the "Tobin Tax" would have provided much security to house hold savers who invested their life savings for a good retirement. However, the hopes of these persons have been dashed. Speculation and the raid on their pension funds have reduced pensioners to a status of destitution as highlighted in the USA, by investigation into the 401K savings plan. A full analysis of the "Tobin Tax" on speculative capital is beyond the scope of this article.

The NGHO concept developed by Dr. Jagan was also designed to address market failures. Economic theory is now backed by empirical evidence that clearly show how markets will always be subject to crises and distortions. Markets will always be prone to crises because of externalities, asymmetric information (Stieglitz and Weiss) and economies of scale (Paul Krugman).

Further the policy framework developed by the IMF/World Bank with the underlying philosophy of "one size fits all" is clearly disastrous. The underlying economic order on which it is based tends to be crisis prone, encourages speculation and is highly volatile.

Finally the call by Dr. Jagan for a New Global Human Order is a work that has to be on- going and should not be seen as only a means to the end, being adopted in different forms and concepts else where. While it cannot be considered a blueprint for all circumstances, the general idea can be developed to fit a given country's specific circumstances. Moreover it will give people a sense of purpose and free them from the "begging bowl syndrome" and thus reorient them towards the concept of self reliance.

It was very much due to the performance and vision of Dr. Jagan during his tenure in office, that Guyana was considered the bread basket of the Caribbean. The concept of the New Global Human Order is a forward looking idea, especially given the current global economic environment prevailing in 2009.