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Some Thoughts on the Washington Consensus and Subsequent Global Development Experience

Michael Spence

In 1989, policymakers around the world were struggling to come to grips with the debt crisis and slow growth that had plagued developing economies during much of the 1980s, especially nations in Latin America and sub-Saharan Africa. The International Institute of Economics (now the Peterson Institute of International Economics) held a conference discussing the economic and debt situation, mostly focused on Latin American countries. The conference was run by John Williamson (who died in April 2021), a senior fellow at the institute who specialized in topics related to international capital flows, exchange rates, and development. To focus the conference discussion, Williamson (1990) wrote a background paper that began: “No statement about how to deal with the debt crisis in Latin America would be complete without a call for the debtors to fulfill their part of the proposed bargain by ‘setting their houses in order,’ ‘undertaking policy reforms,’ or ‘submitting to strong conditionality.’ The question posed in this paper is what such phrases mean, and especially what they are generally interpreted as meaning in Washington.”

Williamson (1990) described what he saw as a convergence of opinion about ten policies areas designed to promote stability and economic development that he felt had emerged during the 1980s. With hindsight, it appears that one of the principal targets was bouts of instability in inflation, public finances, and the balance of payments. If one asks who the consenting parties are in this “consensus,” the answer appears to include the US Treasury, the International Monetary Fund and

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World Bank, think tanks with related agendas, to some extent academia, and over time Latin American governments who came to understand the destructive power of macroeconomic instability with respect to growth. It is noteworthy that in the mid-1990s, inflation in a wide range of developing countries dropped substantially and stayed there.

Williamson's original paper was organized around ten subject areas, but in a later essay, he usefully collapsed them into a list (Williamson 2004), which I reproduce here:

1. Budget deficits . . . should be small enough to be financed without recourse to the inflation tax.
2. Public expenditure should be redirected from politically sensitive areas that receive more resources than their economic return can justify . . . toward neglected fields with high economic returns and the potential to improve income distribution, such as primary education and health, and infrastructure.
3. Tax reform . . . so as to broaden the tax base and cut marginal tax rates.
4. Financial liberalization, involving an ultimate objective of market-determined interest rates.
5. A unified exchange rate at a level sufficiently competitive to induce a rapid growth in nontraditional exports.
6. Quantitative trade restrictions to be rapidly replaced by tariffs, which would be progressively reduced until a uniform low rate in the range of 10 to 20 percent was achieved.
7. Abolition of barriers impeding the entry of FDI (foreign direct investment).
8. Privatization of state enterprises.
9. Abolition of regulations that impede the entry of new firms or restrict competition.
10. The provision of secure property rights, especially to the informal sector.

This list was subsequently augmented by Dani Rodrik (2002) to include an additional ten areas of reform that are also correlated broadly with successful development and growth patterns in the post–World War II period, including issues of corporate governance, anti-corruption, flexible labor markets, and more. Both the Williamson and Rodrik versions, at some level of generality, make perfectly good sense. As such, if viewed directionally as a general guide to practitioners in thinking about reform agendas, the Washington Consensus seems relatively free of objectionable items. Many authors and commentators have expressed essentially this view.

However, the idea of a Washington consensus has also proven to be a flash-point for controversy, which was typically less about the actual ten items than it was about the name of the list, what the list left out, and what implications to draw from the list.

Looking back, John Williamson regarded the word “Washington” in “Washington Consensus” as an unfortunate choice for many reasons. It suggested that

development policies were promulgated or mandated in Washington and hence externally imposed, though the consensus was meant to include policymakers in developing countries, certainly in Latin America, and, perhaps, more broadly. As Williamson (2004) wrote more than a decade later: “I labeled this the ‘Washington Consensus,’ sublimely oblivious to the thought that I might be coining either an oxymoron or a battle cry for ideological disputes for the next coup.”

At a conceptual level, the Washington Consensus list was never intended to be interpreted as a fully elaborated plan, a growth strategy, or a model of development. A growth strategy is a complementary set of actions, reforms, and investments, with appropriate sequencing and pacing and is adapted to the specific initial (and partially historically determined) economic, social, and political conditions in a particular economy and society. In conjunction with a realistic model of how the economy will respond, a growth strategy will predict improved performance in terms of growth and economic development. One implication is that growth strategies are specific to particular countries and time: across countries, they may have common elements, but they must have idiosyncratic elements too. Williamson, an expert in development, knew all this. Rodrik, the leading development economist of his generation, was and is well aware that a few policy guidelines do not constitute a growth model nor a growth strategy. The Washington Consensus was never intended as a complete or a one-size-fits-all development program.

The ten-item policy list did not and does not purport to be a statement of either necessary or sufficient conditions for growth and development. Some might view them as quasi-necessary conditions, meaning if there is some significant deficit (lack of openness and connection to the global economy for example) in any one or a subset of them, then economic performance will be impaired. Several items on this list, however, prominently items 4 (financial liberalization) and 5 (a unified exchange rate), do not seem to be consistent with strategy and performance in a wide range of successful developing countries, especially those in Asia.

It would be even more problematic to view the list as a set of sufficient conditions. Political and policy leaders in developing countries, many researchers, and academics understand that we don’t know the sufficient conditions for growth: that is, we do not now (and did not then) possess models that fully capture the complex economic and political economy dynamics associated with growth and development. This may sound esoteric, but it is important. It means that even if a country does all ten items on the Washington Consensus list, there is no guarantee that growth will accelerate. Conversely, there may be and probably are multiple growth strategies that work reasonably well.

One of the persistent problems with development policy discussions is the absence of an explicit accompanying growth model. The protagonists in development debates often appeal to their own models, or just leave it vague. The Washington Consensus has been misused, both by those appealing to its authority and those rebelling against it, in the service of their own preferred growth models. In this essay, I look back at the Washington Consensus in terms of what we have learned and experienced about economic growth since the late 1980s. I also seek to

stipulate what the Washington Consensus was, was not, and what (as far as I know based on John Williamson's writings) it was never intended to be. In the other three papers in this symposium, Anusha Chari, Peter Blair Henry, and Hector Reyes test the hypothesis that countries which enacted Washington Consensus reforms tended to experience faster growth in the following decade; Ilan Goldfajn, Lorenza Martínez, and Rodrigo Valdés discuss the implementation and legacy of the Washington Consensus reforms in Latin American countries; and Belinda Archibong, Brahim Coulibaly, and Ngozi Okonjo-Iweala consider the implementation and legacy of Washington Consensus reforms in countries of sub-Saharan Africa.

In this paper, I want to view the Washington Consensus through the lens of subsequent growth and development experience as well as related research across the developing world. The trajectories of a number of Asian economies, before and after the Washington Consensus was written, provide useful lessons. At the end of the paper, I will return to uses and misuses of the Washington Consensus, and, specifically, a slimmed down version of the Consensus that was used to justify writing government out of too many aspects of the development strategy script.

The Washington Consensus and Growth 15 Years Later

My views on the relationship between the Washington Consensus and growth policy were shaped by my experience from 2006 to 2008 in chairing the Commission on Growth and Development (2008).¹ Its mandate and purpose were to review development progress on a global basis. After all, a number of development stories had emerged around the world in the roughly decade and a half since the Washington Consensus was formulated. China had sustained average growth at or above 8 percent for 25 years. India's growth experienced a notable acceleration starting in 1991. Brazil had gone from high growth in the two decades after World War II to two decades of economic and political turmoil in the 1970s and 1980s, but had overcome destructive hyperinflation and seemed to be in the process of restoring growth momentum. In east Asia, South Korea and Taiwan had engineered largely successful transitions from middle-income to high-income status, notwithstanding the negative shock of the 1997–1998 Asian financial crisis, and Vietnam had experienced accelerating growth and integration into the global economy. We sought to assess what had been learned from experience in a wide range of countries (those that had experienced rapid growth and poverty reduction and many that had not) and from academic and policy research.

Many of the observations that emerged from that exercise are consistent with the Washington Consensus viewed as policy guidelines, provided one recognizes that their relative importance fluctuates with the variations in the context of a specific

¹As I note in my "Preface" to the report: "This report brings together the views of a Commission of 19 leaders, mostly from developing countries, and 2 academics, Bob Solow and me" (Commission on Growth and Development 2008). We also received support from World Bank staff.

country's conditions. But the emphasis of our main growth lessons was somewhat different.

In search of common elements of sustained growth experiences, we found six key areas. It may be useful to state them here as context for the more detailed remarks below. They were macroeconomic stability, exploitation of world markets and technology/knowledge, high levels of investment and saving, allowing markets to play a role in resource allocation and incentives, leadership and governance, and finally, managing the distributional aspects of growth patterns to put boundaries on inequality in various dimensions.

A first observation was that the demand in the global economy, and specifically, its enormous size relative to any early stage developing economy, is crucial. Domestic demand in a low-income country, both its size and composition, is a severe constraint to sustained productivity growth that enables overall growth. In isolation, absent international trade and the resulting specialization, domestic demand and supply have to coincide. It would be as if the entire economy was located in the non-tradable sector. Drivers of productivity like scale economies, learning curves, and even exploiting imported technology are all truncated in the non-tradable sector of a low-income economy. Domestic demand does not support specialization. As far as I know, there are no cases of sustained relatively high growth that are not export- and trade-enabled. The Washington Consensus on opening via lowering trade restrictions both in and outbound (item 6 on reducing trade barriers and item 7 on foreign direct investment) aligns with this reality.

However, as many authors have noted, integrating with the global economy does not mean sudden shifts in patterns of openness are appropriate. Rapid shifts may occur too quickly for the domestic economy to adjust structurally, creating economically and socially damaging disruption and unemployment, which in turn, may undermine the political support for reform agendas. In this and other reform areas, both pace and sequencing are important. Economic theory is not particularly helpful in this area, because most economic theory deals with equilibria, not transitions between equilibria. This means that for policymakers, economic theory is more helpful in determining the destination and where you want to go, and less helpful as a guide as to how exactly to get there. Pace and sequencing are more a matter of judgment and art than science. If political economy is partly about feedback loops amongst economic policy, economic outcomes, and political/electoral outcomes, then the Washington Consensus can be seen as essentially devoid of political economy considerations.

A second insight from studying and observing growth cases is that the global economy, particularly more advanced countries, provided technology that when absorbed and adapted in a developing economy, causes potential productivity and output to grow much more rapidly than it would or could if the technology had to be generated endogenously from within.

Knowledge transfer is an incredibly powerful accelerator of potential growth. Paul Romer's (1994) work on endogenous growth explains why this is true and how

it works.² Endogenous and self-generated technological advance occurs in advanced economies and underpins their growth. But in the early stages of growth in developing countries, self-generated technology is heavily supplemented by inbound technology transfer, enabled by the technological divergence between advanced and developing countries that grew over two centuries since the Industrial Revolution. For this reason, developing-economy growth is frequently referred to as “catchup growth.” More than any other factor, this explains why we see sustained growth rates in excess of 7 percent in some developing countries. The Washington Consensus is almost, if not quite completely, silent on this. Inbound foreign direct investment (in item 7) often is (or can be) an important channel for the inbound transfer of practical knowledge, technology, and know-how. In my view, a major weakness of the Washington Consensus as a guide to development policy formation is an under-emphasis on knowledge transfer and the channels through which it occurs, as well as on the domestic conditions and investments that facilitate absorption and diffusion of knowledge and technology. Indeed, the country-specific adoption and application of some subset of the common elements of successful growth strategies can be thought of as its own form of knowledge transfer among developing countries, creating an environment in which companies and/or governments can usefully import and embrace the new production technologies embodied in foreign direct investment and other channels.

A third theme from the Commission on Economic Development (2008) report is the very close connection between structural transformation and economic growth. The Washington Consensus has a rather pronounced macroeconomic focus, probably because it was informed by the numerous instances of high debt and destructive macroeconomic instability at the time. But this emphasis is still somewhat puzzling. Sir W. Arthur Lewis (1954) set forth a sectoral-based developing country growth model that was widely known at the time, and for which he had received the 1979 Nobel Prize in economics ten years earlier.³ At the core of the Lewis framework is structural change in the economy. Specifically, in early stages, growth is driven by productivity growth, and hence, income growth in the expanding tradable sectors via exports, drawing labor from agriculture and related traditional sectors. This structural change is not a side-effect of growth, but the key element in the growth dynamics.

One can only speculate about the lack of specific reference to structural change in the Washington Consensus. Perhaps at the time, a strong view in Latin America and parts of academia—in the context of the debt crisis and high inflation rates—was that markets by themselves in a properly regulated and relatively stable macro environment would take care of structural change. But this belief is not written into the Washington Consensus; instead, it is part of a growth model that can be strongly

²For background on endogenous growth theory, Aghion and Howitt (1992) is a useful starting point. Also, the Winter 1994 issue of this journal includes a four-paper symposium on “New Growth Theory.” Along with the contribution from Paul Romer (1994), it includes essays by Gene Grossman and Elhanan Helpman, by Robert Solow, and by Howard Pack.

³For a 60-year retrospective on the Lewis model in this journal, see Gollin (2014).

disputed. To be sure, private sector incentives, investment, and dynamics are important elements in structural transformation and growth. But they are not the whole story. Allocating structural change entirely to the private sector seems to miss or ignore the role that both the size and composition of public sector investment in human capital, infrastructure, technology, public goods, urbanization, migration policies, and social security systems in general play in affecting the size and direction of structural change.

In particular, public sector investment is an essential element of growth and development dynamics. The main elements are human capital, infrastructure, and the knowledge and technology base of the economy. These investments have high social rates of return precisely because and when they raise the rates of return to private investment (both domestic and foreign) in the private sector. In the Washington Consensus list, this would correspond to item 2, which contains an added and important twist. It says that governments should stop spending limited public resources on inefficient and wasteful subsidies and devote them to productivity-enhancing social investments. The public sector also plays a vital role in protecting people from the most adverse outcomes that go along with rapid structural change. The presence or absence of such policies will feed back, positively or negatively, on public support for the overall growth-oriented reform agenda.

This brings us to a fourth and more general point about the inclusiveness of growth patterns. There is one point, essentially missing in the Washington Consensus, on which there was unanimous agreement among the policymakers from around the world who were members of Commission on Economic Development (2008): Non-inclusive growth patterns generally fail. Put differently, growth that is accompanied by extreme hardship for large groups due to the turbulence of creative destruction that accompanies structural change (think of large-scale loss of employment), by rapid increases in inequality, or by cases of large-scale inequality of opportunity or access, will encounter resistance, and eventually, the likelihood that the policy underpinnings will be rejected rises. Therefore, the public sector plays a critical role in the design and implementation of reform programs, with an eye to preventing excessively non-inclusive outcomes.

This omission is somewhat puzzling, at least to me. To the extent that the ideas embodied in the Washington Consensus were informed primarily by experience in Latin America, where some of the highest national levels of income inequality could be found, and where the political economy saw political polarization and wide ideological swings from populism to market fundamentalism, one might have expected that the inclusiveness of the growth patterns, or its absence, might have made its way to the policy guidelines.

Sometimes the structural changes produced by market outcomes are relatively benign, as in the case of immediate post-World War II growth in developed countries (say, from 1945 to 1970). But more recent history instructs that this is not always the case. An important part of the role of the state, as a complement to otherwise beneficial market forces and incentives, is to engineer and nudge the growth trajectory in order to contain inequality and exclusion and to promote intergenerational

mobility. Among the instruments are universal delivery of key public services, especially education and health, but also access to financial services and a broad-based method of taxation. Connectivity via physical and information technology infrastructure, an important element of public sector investment, can also have beneficial distributional benefits if properly implemented. Of course, these things are expensive and cannot be done on short time horizons. But attaching a priority to making discernible progress on them does enhance overall growth while mitigating inequality.

In fairness, it should be noted that just as a country can have too much emphasis on growth as well as static and dynamic efficiency at the potential cost of adverse distributional trends and eventual opposition to the growth agenda, a country can also have too much focus on distribution, and too little on growth itself and the contribution of the private sector's key role in structural change and advancing productivity. Some of the Washington Consensus looks like it is meant to lean against this second tendency (as in items 5–9). After all, growth is a necessary condition for rising incomes, opportunity, and poverty reduction in lower-income countries. One of the main shortcomings of populist governments, at least in some of their manifestations, is that they leverage public sentiment around distributional problems while either ignoring the longer-term growth agenda, or worse, taking policy actions that adversely affect growth.

A common, indeed nearly universal, feature of development policies at the time, and even later, were subsidies especially for fossil fuels and sometimes electricity. These are counterproductive from the point of view of dynamic and static efficiency; in addition, viewed as a negative tax, they are probably regressive and by distorting the price signals, they guide the economy to low energy-efficiency and high energy-consumption paths, which affect the patterns of long-lived capital investment. In 1989, climate change was not widely perceived as the existential global challenge that it has become now. Subsidies to fossil fuels, in retrospect, seem even worse than they did then.⁴ When I had the chance to talk with political leaders, they understood that subsidies were counterproductive, but they also knew that such subsidies are politically very difficult to remove once in place. Also, they are frequently implemented by governments via price controls on domestic energy products, an approach that hides the fact that the government is, in effect, giving up tax revenue that could have been spent more productively.

The Washington Consensus and Asian Development Experience

The Washington Consensus reform agenda, which I prefer to think of as a set of guidelines for reasons explained earlier, seems to have been informed mainly by

⁴In the Commission on Economic Development (2008) report, perhaps the most popular section was a two-page discussion of “Bad Ideas” (pp. 68–69). The first bad idea listed was “[s]ubsidizing energy except for very limited subsidies targeted at highly vulnerable sections of the population.”

experience in Latin America, and specifically by addressing bouts of fiscal and financial instability. However, countries in Asia have, on average, outperformed the rest of the developing world by a fairly large margin in terms of sustained growth over the last few decades. Back in 1989, while China had entered an economic reform phase ten years earlier, it was not yet clear as it is now that a decades-long period of unprecedented growth had been launched. The economies of South Korea and Taiwan had performed well, but in the 1980s, they were in the midst of the perilous middle-income transition. It was not at all that clear then that they would sustain growth to achieve developed economy income levels.

The Washington Consensus, as far as it goes, is broadly consistent with Asian development strategies. However, several items on the list—like item 5 on exchange rates and capital account management and item 8 on privatizing state-owned enterprises and generally getting the government out of specific sectors—do not seem in accord with all or most Asian policy choices. For me, juxtaposing the Washington Consensus development policy guidelines with experiences in a range of Asian countries/economies, before and after 1989, offers a way to think about what is not included in the Washington Consensus, and what development experience has taught us in the intervening 30 years.

Let's begin with economic theory and conceptual frameworks. Economic models were regarded as useful by policymakers in Asia. China's original request to the World Bank in the 1980s was for help in importing western knowledge about the management of a market economy.⁵ But in China and other Asian economies, the models that are used in developed market economies to predict the outcomes of policy choices need to be handled with caution. The reason is that these models assume, mostly implicitly, a fairly fully developed set of market institutions and capacities. In the early stages of growth, these do not exist in fully developed form. Policymakers in China, for example, explicitly viewed the economy as a transitional one (and still do), where the transitions are multi-dimensional: structural, human capital deepening, building market and institutional depth and development (especially in finance), and more.

When beginning from this transitional mindset, the analytical tools of economics for predicting the impact of policies are not fully developed and the approach becomes what might be called pragmatically experimental. I have referred to this approach as akin to navigating with incomplete charts (Spence 2010)—not quite like the case of the early global maritime explorers who had no charts whatsoever, but incomplete in important ways.

Asian development policies generally were informed by explicit (and evolving) views about the sources of comparative advantage, and hence about what kinds of investment (public and private, foreign and domestic) were likely to be needed to access them. Asian economies (with some exceptions) generally are not rich in

⁵For an interesting discussion of what China hoped to get from its interactions with the World Bank and the interactions between Deng Xiaoping and Robert McNamara, see Edwin Lim's (2002, starting on p. 18) interview with the World Bank Oral History Program.

natural resources. However, these countries had an abundance of workers with relatively low incomes, and thus labor costs, and they had surplus labor in traditional sectors like agriculture. Thus, labor-intensive, process-oriented manufacturing and assembly (usually with textiles and apparel as the starting point) emerged as a key component of the growth model—the part that leveraged the global economy and specialization in the tradable sectors of the economy. At some level, these countries understood or came to understand the growth dynamics embedded in the Lewis (1954) growth model. In China, policymakers and their academic advisers talk explicitly about the “Lewis turning point” (as discussed, for example, in Das and N’Diaye 2013; Fang 2021), the point at which the shift of labor from traditional to modern urbanized sectors reaches a point that incomes and prices start to rise.

The more general point is that structural transformation and supporting policies are a central feature of development strategy discussions. Development policy in Asian countries tended to take a more expansive and flexible view of the role of government than is perhaps implicit in the ten-item Washington Consensus list. Government influence in Asian development experience included long time horizons, implemented via rolling five-year plans, which are best thought of not as plans but priorities for policy and development and statements about the direction of the economy. The goal was to solve coordination problems via providing a mechanism that helped expectations to converge. In France, this element of policy has been called “indicative planning.” There was, in addition, a willingness to have government participate as a catalyst to structural change and growth at a microeconomic level, including via still-controversial industrial policies. The directions of public investment nudged the economy forward in terms of structural change. Most of Asia’s policymakers appear to have understood the difference between crowding in and crowding out in their use of public sector investment. They learned over time the importance of the relation between expectations and coordination of economic activity. They also knew that internal and external shocks are to be expected, so that foreign exchange reserves, relatively modest government debt, and in some cases like China, even substantial state ownership of productive assets, came to be viewed as important tools in buffering shocks.

This general framework and the interventions that emerged from it were far from error-free. Mistakes are an automatic correlate of using judgment in the face of uncertainty. Good policy does not mean that mistakes never occur, only that they be promptly reversed. Generally, the formulation of policy was pragmatic and experimental, exhibiting less concern for any particular orthodoxy, and more concern for measurable progress toward explicit economic and social development goals. This distinction is quite fundamental. The goals and the system for achieving them are distinct. In all successful cases of high growth development, not just in Asia, markets, prices, incentives, decentralization, and capitalist investment and dynamics have been key elements of the system. But markets and free market policies should not be and were not confused with the objectives of development. They are instruments or tools. This mindset is particularly important when the mapping from policies to outcomes is highly uncertain. Asian policymakers generally maintained a focus on

the goals and had a flexible attitude toward which policies and tools would work and in what circumstances.

One implication of having a more expansive view of the role of government as a complement to a developing private sector was the need to have talent in both sectors, especially the public sector. Compensation and prestige both played a role in attracting it. Another is the need to stamp out corruption in its various forms. Nothing short-circuits development faster than a government that is either incompetent, or worse, pursuing some agenda and set of interests that diverge from the long-run public interest.

There are other differences between the Asian development experience and at least some interpretations of the Washington Consensus, though in reality they are not, for the most part, inconsistent with each other. The Washington Consensus approach to opening the economy in trade (item 6) and in the capital account (implied by items 4, 5, and 7) was somewhat cautious in Asia. On the trade side, my view is that in a highly uncertain transitional setting, Asian policymakers were trying to make sure the pace of opening was consistent with the capacity of the economy to adapt structurally, and specifically with a focus on the dynamics of the labor market and the balance between employment creation and destruction. Similar considerations apply to the capital account and exchange rates, which remain, to this day, a controversial area. There was and still is considerable variety across Asian economies in the management of the capital account. But there are few examples, if any, of totally open capital accounts and purely market-determined exchange rates. Inward foreign direct investment was generally favored as supportive of the growth model, though even here there are counterexamples; in one prominent case, Japan was not receptive to inward foreign direct investment for a number of decades and found other ways of accessing global technology. South Korea had a similar approach. Relatively more mobile (and potentially volatile) international financial flows are not without benefits, but they generally faced more restrictions. These restrictions tended to decline over time as the depth and liquidity of the capital markets increased and the capacity grew to absorb rapid shifts in these flows without risking instability.

Two points seem to me to emerge from these observations. First, if the Washington Consensus were to be rewritten or replicated in roughly the same time frame as the Tokyo Consensus, or perhaps later as the Shanghai Consensus, it would have looked similar up to a point, but there would be differences. It would have included more explicit recognition of, and emphasis on, the potential sources of comparative advantage and on the role of government in exploiting them. It would have been more explicit about the core features of the underlying growth model, the importance of knowing what those core features are in setting reform priorities, the evolving role of the state in catalyzing and facilitating structural change, the importance of policies targeted at inclusiveness in the growth process, and probably an explicit recognition that development is a multi-decade journey with extreme uncertainty at every step along the way.

Second, we are now living in a period of radical digital transformation of economies globally and of the global economy itself. This transformation has

many dimensions, but a few stand out as especially relevant for development. The expanding scope and scale of digitally enabled automation, powered by breakthroughs in machine learning, sensors, and more, means that robotics will sequentially overtake labor-intensive processes in manufacturing, logistics, and some related service functions in terms of cost. Digital technologies applied to automation and many other areas have high fixed cost and low-to-negligible variable or marginal cost. Thus, as scale increases, the average costs keep coming down and eventually take out and displace labor-intensive technologies.

This trend is well underway and is irreversible. It has profound implications for the location of manufacturing and the configuration of global supply chains. For developing countries, it means that the comparative advantage in labor-intensive manufacturing (the core of the “Asian development model”) will decline and steadily lose its power as a growth engine. Rodrik (2015) refers to this process as “premature deindustrialization”—premature in the sense that it is a development path rapidly becoming unavailable. He has observed that manufacturing in a number of currently low-income countries is excessively capital intensive in the sense that capital-intensive or digitally capital-intensive manufacturing does not generate enough employment to support the demand and income side of the growth model. Early-stage developing countries will need to search for alternative sources of comparative advantage, ones that have powerful embedded employment engines. At present, the possible alternatives are not at all clear.

For middle-income countries, this digital trend may, on balance, be beneficial. A middle-income economy is already in a transition that involves moving people with higher levels of education away from the low labor-cost sectors or components of value chains to higher value-added activities, many in the growing service sectors or to service parts of value-added chains. In such countries, the automated parts of manufacturing may remain domestic, albeit with a much less labor-intensive configuration. With suitable human capital investment, the employment engines will shift to other parts of the economy.

Global trade in goods is in a period of decline, measured as a fraction of global GDP. But trade in services, although it is only about one-third of the trade in manufacturing/goods, is growing rapidly in absolute terms and as a fraction of GDP. There are valuable pools of relatively immobile human resources in a wide range of countries in the non-automatable parts of the global service sector. The global economy will find these workers and integrate them into global supply chains, unless we have a new bout of protectionism with rising barriers. The challenge for the lower-income countries is to find niches in this global services trade and adapt the policies and public sector investments to enter them. Development strategies will have to change.

There is a somewhat different set of digital technologies that show considerable potential with respect to inclusive growth. Research at the Luohan Academy (2019) in Hangzhou in China, using e-commerce and mobile payments data, indicates that platform-centered and open digital ecosystems can exhibit relatively powerful inclusive growth characteristics. For example, remote regions and lower-tier cities

gain access to markets and retail options that are not yet available in the offline world. With low entry barriers and supporting resources available via the platforms, entrepreneurial activity expands. Taobao, one of the principal e-commerce platforms in Alibaba, has 10 million companies and entrepreneurs on the platform, roughly 50 percent of whom are women. Vast troves of data in the e-commerce and mobile payments systems, when subjected to machine learning algorithms, are expanding credit to lower-income households and small businesses that were previously excluded from traditional credit channels because of lack of collateral and previously limited accessible financial histories. In economic terms, big data is closing informational gaps in some markets, with beneficial effects on market formation and efficiency.

These technological and market trends are not unique to China, though the digital infrastructure at this point is somewhat more advanced there than in lower-income countries. India, for example, is rapidly building similar digital economy systems around the rapidly growing Jio mobile phone network and expanding e-commerce platforms. E-commerce, mobile payments, and fintech platforms are expanding rapidly in Latin America as well. Africa has seen the development of innovative digital payments platforms. In short, digitally enabled or enhanced markets, commerce, and finance show considerable potential for becoming inclusive growth engines in developing countries and emerging economies.

Some Closing Thoughts

There is little controversy that the choice of the “Washington Consensus” as a name was unfortunate. It created a shadow with an unintended, vaguely imperialist connotation to what is otherwise an entirely thoughtful and insightful set of guidelines for thinking about development strategy and policy. The name made it a convenient target. If John Williamson (1990) had used some long-winded title like “Some lessons learned from experience in overly indebted developing countries, with special focus on disruptive bouts of instability caused by failures in macroeconomic management, and policies that help avoid them,” then his list of ten policy guidelines probably would not have experienced such ferocious attacks. After all, there is no doubt that widespread financial crises before and during 1980s, and since then as well, have been a major impediment to progress in development in a wide range of countries. There is virtually no controversy about the importance of macroeconomic stability and the avoidance of self-inflicted wounds in the form of internally generated economic crises. They just slow down growth and development, and the recovery period is often lengthy. It is interesting to speculate whether the Asian economic and financial crisis of 1997–1998 might have been averted or been less severe if some of the Washington Consensus guidance had been heeded.

But the real heat directed toward the Washington Consensus came from a different direction. Somehow the Washington Consensus got linked with

development strategies, mainly in Latin America, that relied heavily on markets and private enterprise to generate growth and largely wrote government out of the script. Moreover, these development strategies paid little attention to issues related to pacing and sequencing of reforms and the shocks that might occur as a result, and that to a large extent ignored the distributional aspects of the growth patterns that might result. As I noted earlier, this last point, ignoring the distributional consequences of growth policies, is especially puzzling in a continent that had (and still has) some of the highest levels of inequality (for example, as measured by Gini coefficients) in the world. But on reflection, perhaps it is not that strange. After all, a multi-decade pattern of rising inequality in developed countries, especially the United States and United Kingdom, went largely unattended to in terms of policy countermeasures, at least until recently.

Historians will have to sort out how this linkage of the Washington Consensus with the limited government approach to development happened. As far as I can tell, it is essentially impossible to link the Washington Consensus as it is actually written with what has come to be called the neoliberal approach to growth and development. In particular, item 2 identifies a key role of government as an investor in infrastructure and human capital, a role for government well beyond the basic tasks like rule of law, defense, and sound macroeconomic management. But it is fair to point out that because the Washington Consensus was focused mainly on macroeconomic policy and stability, and to some extent on dysfunctional things that governments do that they should stop doing, it is largely silent on what is being assumed about the underlying growth model, what are its moving parts, and what roles do various sectors (foreign and domestic) play in getting the job done at various stages of development. Because of this, it perhaps became unintentionally vulnerable to the criticism that it had implicitly allocated most of the growth dynamics to the private sector. In addition, it seems clear that proponents of the neoliberal versions of the model with a limited role for government, on the ground that government is usually incompetent, wasteful, corrupt or all of the above, often viewed themselves as justified by the Washington Consensus policies.

My opinion is that if the Washington Consensus had been preceded by a preamble in which the key elements of a development model were laid out in such a way that the policy recommendations could be seen as implementing or partially implementing a growth strategy, it might have been interpreted differently: for example, the importance of leveraging global demand and technology could have been linked to items 6 (reduced trade barriers) and 7 (allowing foreign direct investment), the crowding in effect of properly targeted public investment could have been linked to item 2 (retargeting of government spending), and something on the high levels of public and private investment required to sustain elevated growth. The various pieces would have been seen as complementary components of an overall strategy. The guidelines would have been less susceptible to being treated as an à la carte menu, picking and choosing the items that conform to one's ideological predispositions and disposing of the rest.

The Washington Consensus was clearly well-intentioned, and in many ways insightful and a useful response to the accumulated experience at the time. With the benefit of hindsight, it was vulnerable to ideologically motivated misuse. That said, it has weathered the test of time pretty well. Subsequent experience and learning have not invalidated what it says in any major way, but instead have called attention to what it does not say and to some of the items that were often not followed. To be sure, there are subtleties and details that cannot be incorporated in a general set of guidelines because they are case-specific and to some extent idiosyncratic. The concept that policymakers in a given developing countries should seek to identify and address the binding constraints that apply to their own economy, as developed by Hausmann, Rodrik, and Velasco (2005), is a useful way of helping policymakers think about setting priorities in a specific time and place. These binding constraints are emphatically not the same as one moves from case to case, or even over time: for example, in a given country the key constraint could be demand shortfalls, deficits in human capital, or infrastructure.

The Washington Consensus has sometimes been criticized as promoting a one-size-fits-all approach to development. That complaint is unfair, and it was not Williamson's intention. Any attempt to distill lessons from experience across a range of developing economies, and even continents, would be vulnerable to the same objection. The truth is that successful development strategies and supporting policies are always context-specific. However, the fact that growth strategies cannot simply be written down or summarized in a list and transplanted in total from one setting to another does not mean that there are no common elements in successful development cases, nor does it mean that there is no value in cross-border learning. In fact, one of the more encouraging developments in the decades since the Washington Consensus has been the breaking down of regional silos within and between international financial institutions and the regional development banks around the world.

Although the world has lost the wise counsel of John Williamson with his death earlier this year, I am confident that the Washington Consensus, notwithstanding the controversy that has sometimes surrounded it, will come to be seen as an important milestone on a long and, at times, bumpy journey during which the welfare and the opportunities of hundreds of millions of people in the developing world have been lifted. In the dark days of addressing the immediate threat of a pandemic, it is well to remember both that much has been accomplished, and that there is much more to do.

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