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Rethinking the Emerging Post-Washington Consensus: A Critical Appraisal

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RETHINKING THE EMERGING POST-WASHINGTON CONSENSUS: A CRITICAL APPRAISAL

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The objective of the paper is to provide a critical assessment of the emerging post-Washington Consensus (PWC), as a new paradigm in the development debate. The paper begins by tracing the main record of the Washington Consensus, the set of neoliberal economic policies propogated foremost by key Bretton Woods Institutions like the World Bank and the IMF that penetrated into the economic policy agendas of many developing countries since the late 1970s. The paper then outlines the main tenets of the PWC, emerging from the shortcomings of that record and the reaction it created in the political realm. The paper, while accepting that the PWC provides a significant improvement over the Washington Consensus, draws attention to its failure to provide a sufficiently broad framework for dealing with key and pressing development issues such as income distribution, poverty and self-sustained growth.

Introduction

The critical period from the late 1970s to the early 1990s witnessed a major upsurge in neo-liberal ideas concerning the development process and development strategy. The neo-liberal counter-revolution in development theory represented a major assault on national developmentalism in the context of which the state had played an active role in the developmental process through such strategies as import-substitution industrialization and financial repression. The emerging neo-liberal orthodoxy advocated a new development model based on the primacy of individualism, market liberalism, outward-orientation, and state contraction. The organizing principle of neo-liberal political economy was the notion of a minimal state whose principal role was confined to that of securing law and order, macroeconomic stability and the provision of physical infrastructure.[1]

The new orthodoxy identified widespread and excessive state interventionism as the primary cause of weak economic progress. The natural implication of this diagnosis was to liberate the market from the distorting influences of large public sectors, pervasive controls and interventionism. Neo-liberal thinking, in turn, exercised a key practical influence on the policy discourse of key Bretton Woods institutions such as the IMF and the World Bank. The central tenet of neo-liberal thinking and the associated 'Washington Consensus' was 'getting the prices right'. The state, itself, was conceived as the problem rather than the solution. The universal policy proposal was to pursue a systematic program of decreasing state involvement in the economy through trade liberalization, privatization and reduced public spending, freeing key relative prices such as interest rates and exchange rates and lifting exchange controls. Efficient allocation of resources would be guaranteed by relative prices determined through the impersonal forces of the free market. The logical corollary of this line of thinking was that the cost of 'government failures' arising from rent-seeking and price distortions associated with excessive protectionism would always outweigh 'market failures' associated mostly with imperfect competition and under-provision of public goods. Hence, increasingly the Washington Consensus was based on the understanding that imperfect markets are always superior to imperfect states.[2]

The rise of neo-liberal orthodoxy was in addition supported by a powerful 'new political economy' that challenged the notion of a benign state which would always act in the public interest, an idea that was at the core of structuralist development thinking and the associated model of national developmentalism. The political economy element embodied in neo-liberal thinking underlined the need to analyze the state, not as an abstract institution divorced from the society at large, but as an institution dominated by powerful self-maximizing actors such as politicians and bureaucrats. The tendency to view the state as a powerful interest group in itself meant that the actors concerned could take advantage of the rents associated with highly interventionist policies. Self-maximizing politicians and bureaucrats would take advantage of their powerful position in society through various forms of corruption. This line of reasoning was also used to explain persistence of policies such as heavy protectionism. Although such policies were against the public interest at large, such policies continued to be implemented because they tended numerically small, but powerful interest groups such as rent-seeking elements in the private sector as well as state officials. A natural implication of this rather bleak view of politics and interventionist economic policies was that liberalization and state contraction were necessary tools to curb the excessive powers enjoyed by politicians and bureaucrats, a process which was regarded as central for rapid and equitable economic growth.[3]

By the beginning of 1990s, however, the Washington Consensus itself was under serious challenge. The principal objective of the present study is to uncover the forces that have progressively undermined the very foundations of the Washington Consensus, resulting in the emergence of a new line of thinking in development, namely 'The Post-Washington Consensus'. An attempt will be made to disaggregate the principal elements of the new consensus that seems to be emerging within the dominant policy establishment in recent years. We do recognize that key elements of the emerging 'Post-Washington Consensus' (the PWC) constitute progress over the naïve postulates of the earlier Washington Consensus that it seeks to transcend. Yet, the central criticism posed is that the PWC does not go far enough in overcoming the limitations of the neo-liberal policy agenda. Our central contention is that although power issues in the domestic and international arena are at stake, these are not sufficiently emphasized in the emerging PWC.

The following types of questions assume particular relevance in this respect. Is it possible to accomplish significant poverty alleviation without altering the underlying asset or wealth distribution? Is it possible to deal effectively with issues regarding unemployment, poverty, and the broader and even more challenging distributional issues through growth alone without taking into account considerations relating to ownership structures? Similarly, is it possible to reform the key Bretton Woods institutions, in a meaningful way, without tackling the underlying structure of power at the global level? A meaningful encounter with the development issues of the post-neo-liberal era requires a serious consideration of fundamental questions of this nature.

The paper is organized as follows. After this introduction, Section 2 examines the record of the Washington Consensus and identifies the main factors responsible for the increasing criticism that it has drawn since the early 1980s. Section 3 identifies the main elements of the PWC, emerging from the criticicism of Washington Consensus. Section 4 provides a critical assessment of the PWC, emphasizing its shortcomings in providing a sufficiently broad and strong framework for development. Section 5 concludes.

The Washington Consensus under Challenge

The hegemonic position of the neo-liberal paradigm has started to encounter serious criticisms by the beginning of the 1990s. The growing intellectual challenge to neo-liberal orthodoxy was based on accumulating empirical evidence that undermined the fundamental claim of the Washington consensus that full-scale liberalization at all cost is associated with superior economic performance. The following stylized facts of development performance in the neo-liberal era deserve particular emphasis in this respect.

A highly influential element in the neo-liberal resurgence had involved the interpretation of East Asian success. The superior economic performance of Newly Industrializing Countries (NICs) in East Asia not only in the realm of economic growth but also in terms of key social indicators was interpreted in such a way as to provide strong support for the neo-liberal paradigm. Countries like South Korea and Taiwan had, for example, managed to combine outstanding rates of economic growth with striking performances in the domains of employment expansion, poverty reduction, and income distribution. In the neo-liberal vision, Asian NICs were successful because they were less protectionist, more outward-oriented and closer to the norms of the free market than their counterparts in other parts of the developing world in Latin America and elsewhere.[4] Countries that were heavily *dirigist* and protectionist in their economic policies experienced, on the other hand, not only slower rates of economic growth but also higher income inequality and limited success in terms of employment expansion and poverty reduction. Such countries also experienced serious macroeconomic instability and crises which were absent in the East Asian context for most of the post-War period.

This kind of dichotomy that marked one of the central pillars of the Washington Consensus was seriously challenged by more careful and detailed accounts of East Asian success. Institutionalist interpretations of hyper-growth in South Korea and Taiwan highlighted the fact that rapid industrialization and export growth was at the heart of their superior economic performance. Yet, strong growth and diversification of industrial output and exports could not simply be accounted by the logic of the free market. Interventionist strategies and an active industrial policy, dictated by considerations relating to longer-term competitiveness and dynamic comparative advantage, constituted the central elements contributing towards their success.[5]

Superficially, these economies seemed to be characterized by a low degree of protectionism. Moreover the size of state involvement in the economy appeared to be lower than their less successful counterparts elsewhere. But, at the same time, a closer investigation revealed that effective state interventionism and an appropriate mix of state and the market and import-substitution and export-promotion were key ingredients of their superior economic performance. This kind of empirical evidence clearly contradicted one of the basic assumptions of neo-liberal political economy that interventionist strategies necessarily work against long-term public interest. In retrospect, the institutionalist interpretation suggested that the kind of strategies adopted in East Asia represented national developmentalism of a different type. It also suggested that under certain specific conditions state interventionism can act in public interest and play a constructive role in the development process. The record of these countries which had been skillfully used to provide empirical backing for neoliberal wisdom has thus been instrumental in undermining it in the light of this powerful new evidence.

Probing into the empirical landscape further, another piece of evidence that appeared to cast doubt about the intellectual underpinnings of the neo-liberal orthodoxy concerned the overall growth performance of the world economy. Overall growth in the world economy has been strikingly lower and more unstable during the neo-liberal era compared to earlier periods. As the gap between developed and less developed countries widened there was increased divergence within the Third World.[6] For example, Latin America in the 1980s and Sub-Saharan Africa throughout the past two decades were among the major laggards as opposed to the hyper-growth experienced by Asian NICs. A large number of African countries during this period have been stagnant or registering negative rates of growth. Latin American countries, after a similar performance in the 1980s, showed signs of recovery thereafter, but only at a slow pace. In spite of the fact that both regions had stagnant investment performance and experienced deindustrialization, East Asian countries again represented the major cases of good performance.[7]

Not only has overall growth been lower, but the degree of inequality in the global economy appears to have increased during the era of neo-liberal restructuring.[8] With regards to poverty the evidence is rather mixed. World Bank estimates show that the number of people living on less than one dollar a day has remained almost constant during the 1987-99 period while the overall poverty rate on the same basis has declined from 28.3 percent to 23.3 percent. Even those who claim that the poverty rate has fallen during the period of neo-liberal restructuring concede, however, that this record was due mostly to good performance in Asia, particularly China. Excluding China, there is an increase in the absolute number of poor people while the fall in the poverty rate becomes more modest, declining from 28.5 percent to only 25.0 percent.[9] In any event, the experience of many countries under neo-liberal reforms, notably the cases of Argentina and Turkey, has clearly demonstrated that economic growth *per se* was insufficient to deal with the problem of endemic poverty.[10]

There is no doubt that neo-liberal experiments in the developing and the post-communist world have also been characterized by considerable variation in economic performance among different countries as well as among different sub-periods within the same country. Countries have also diverged sharply in terms of their ability to apply neo-liberal reforms on a sustained basis particularly in the framework of nascent democratic institutions. One should, therefore, guard against simple generalizations in this respect. Yet, it is also the case that the application of neo-liberal principles has produced only a few cases of major success on a sustained basis.

Disaggregating economic performance under neo-liberal reforms, premature financial and capital account liberalization has arguably constituted the soft spot of Washington Consensus. A number of middle income countries or 'emerging markets' have been encouraged or pressurized by key international institutions to open up their capital accounts before accomplishing a stable macroeconomic environment and constructing the necessary regulatory infrastructure over their financial systems. Premature exposure to the vagaries of financial globalization has been costly for many economies in the semi-periphery. Many countries found themselves trapped on a highly fragile growth path based on short-term and highly speculative inflows of capital. Reliance on debt-led growth, without paying sufficient attention to the need to increase domestic savings and the long-term competitiveness of the real economy and the need to establish an adequate regulatory framework for their financial sectors rendered such economies increasingly vulnerable to speculative attacks and frequent financial crises. Indeed, the very frequency of financial crises primarily, if not exclusively, in the developing world has been one of the most striking features of the global economic environment in the post-1990 era. What is also striking is that such crises have not been confined to certain regions of the developing world, such as Latin America, as was the case in the era of import-substitution and national developmentalism. Crises occurred not only in Latin America and Eastern Europe, but also in East and South-East Asia, regions that were quite successful in avoiding financial crises in the past.

The highly volatile capital flows and frequent financial crises associated with under-regulated financial systems and open capital account regimes have proved to be costly in a number of important respects. First, they increasingly undermined the basis of sustained economic growth not only at the level of the individual nation state but at regional and global levels. A striking characteristic of the new era involved the possibility of contagion, with crisis in one country leading to declines in the availability of capital flows to countries in other parts of the world through its impact on investor perceptions and confidence. This was surely the case following the Asian crisis of 1997 and the Russian crisis of 1998 in the aftermath of which investors were much more reluctant in terms of committing funds to the highly risky financial environments of the so-called emerging markets. Such an environment clearly injected a deflationary bias to the world economy that was costly both for individual nation states and the workings of the global economy as a whole. Such crises have been costly not only in terms of growth but also in terms of their impact on poverty and income distribution. In many cases, a disproportionate impact of such crises has fallen on the poor and the middle strata of society, with highly negative social consequences.

Yet another disturbing feature of the new era involved pervasive state failure in a large number of cases with corruption in government emerging as a major sphere of concern under neo-liberal reforms.[11] This observation is rather paradoxical in the sense that the whole spirit of neo-liberal reforms was predicated on the notion of overcoming pervasive rent-seeking and corruption which were diagnosed as natural by-products of excessive state intervention in the economy. What happened instead is that the liberalization process itself helped to undermine the effectiveness and legitimacy of state institutions, helping to create a vacuum and producing an environment within which widespread corruption could flourish. Again what is striking is that the problem has not been unique to individual countries or regions, but manifested itself as a broad, systemic problem which was evident in all parts of the developing world. As in the case of financial crises, such examples of state failure under neo-liberalism have been counterproductive in the countries concerned not only in terms of undermining growth but also in terms of its deep negative impact on income distribution, trust and social cohesion[12]

Continuing our analysis with variations in growth performance, it is interesting to note that some of the most drastic experiments in neo-liberal reforms have ended in failure. A typical example that immediately comes to mind in this context is the case of Argentina. Argentina, after a period of prolonged stagnation throughout the post-War period, embarked upon a far-reaching experiment in neo-liberal economic restructuring in the early 1990s. Argentina, through its rigid adherence to the convertibility plan and its institutional counterpart the currency board, in line with the advice of the IMF, had considerable success in the early years of the experiment in terms of reducing inflation from hyperinflation to single digit levels and engineering a massive privatization that helped to attract capital flows on a large scale.[13] By the mid-1990s, Argentina under neo-liberal reforms was growing at historically unprecedented rates. Not surprisingly the key Bretton Woods institutions singled out

Argentina as a model case that other countries ought to follow and emulate. Yet, the kind of fragile, debt-led growth that Argentina was experiencing came to a total standstill following the crisis of 2001. The crisis itself had costly consequences and has been a source of massive protests. Clearly, we are not in a position to do full justice to the Argentine case. What is important for our purposes is that a country that appears to be fully committed to the implementation of the neo-liberal agenda, have ultimately found itself in the midst of a deep economic crisis with dire social consequences.

Indeed, Argentina is not unique in this respect. Turkey is a country that had one of the very first encounters with the Washington consensus in 1980. By the mid-1980s, Turkey had recovered from a major crisis and found itself on a steady growth path based on rapid expansion of exports. Again, it was identified by the principal international financial institutions as a model case of successful restructuring.[14] Yet, the performance of the Turkish economy has deteriorated in the context of the 1990s, notably following the decision to open up the capital account fully in 1989 in the face of rising macroeconomic instability and without the necessary regulatory and legal safeguards. Turkey has experienced three important crises during the second phase of neo-liberal reform which have clearly jeopardized the country's growth and income distribution performance.[15] Currently, the country is trying to recover from the latest and deepest of these crises, the crisis of 2001. Clearly, the list of such cases which have been initially identified as neo-liberal success stories but whose performances have subsequently failed to live up to initial expectations can be extended further.

Finally, another major source of challenge to the Washington Consensus came from the observation that the small number of countries achieving high rates of growth in recent years have deviated from neo-liberal norms in certain critical respects. China and Vietnam, the two hyper-growth cases, have been successful in penetrating into export markets on the basis of low wages and attracting large amounts of long-term foreign investment. Yet, neither of these two countries has conformed fully to the neo-classical logic. In fact, selective infant industry protectionism and active industrial policy have been key components of the policy package in both of these cases.[16] India, a country which has been growing rapidly, emerging as one of the few real success stories of the recent era, has been liberalizing its trade and capital account regime but only gradually.[17] Malaysia, another successful case of rapid growth based on export-orientation and foreign direct investment has deviated from the norms of the Washington consensus in a critical respect, namely through the imposition of controls over short-term capital flows. Arguably, such a non-orthodox instrument has been helpful in helping to insulate Malaysia from the vagaries of the Asian crisis which has proved to be so costly for other countries in the region such as Thailand and Indonesia. Chile, widely considered to be the most successful country over time during the neo-liberal era, has also deviated from neo-liberal norms by effective state involvement in the creation of natural resource based export activities after the mid-1980s[18] and perhaps more crucially, by maintaining controls over short-term capital flows throughout the 1990s.[19] To provide yet another example, Russia, which achieved rapid growth following the 1998 crisis, is another country that has only partially liberalized its capital account regime.

Extending the list of countries that deviated from the neo-liberal package in some key respects further, the more successful countries of economic reform in Eastern Europe, notably Poland, Hungary and Czech Republic have rather than simply relying on neo-liberal reforms benefited from the existence of a double external anchor. The prospect of early European Union membership has generated major additional benefits to these countries which have provided them considerable leeway in maximizing the gains and minimizing the losses associated with neo-liberal reforms. Financial resources associated with early accession have strengthened the hand of reformers in such economies. Positive signals provided by the EU have also helped these economies to attract considerable foreign direct investment. Clearly, such additional incentives have been lacking for the remainder of the developing world, a category that includes a large segment of the post-communist Eastern Europe as well. Hence, it would be misleading to offer these cases as unqualified success stories of neo-liberal reform in the sense that they could most probably not have achieved this kind of success in the absence of the unusually favorable mix of conditions and incentives associated with the prospects of early accession to the EU.

It is also important to draw attention to the fact that the limited number of highly successful cases identified above found themselves in a situation of what we could describe as a virtuous circle. Arguably, they managed to be successful by deviating from neo-liberal norms in certain crucial respects. The fact that they were successful and could avoid crises meant that they could go on experimenting with heterodox instruments without encountering the discipline of international financial institutions. Less successful countries like Argentina and Turkey, in contrast, found themselves trapped in a vicious circle. The fact that they were too conformist on key aspects of neo-liberal reforms such as early capital account liberalization rendered them inherently crisis-prone. Once they found themselves in a crisis situation and by implication within the straightjacket of a formal IMF program, they were in no position to experiment with heterodox policy instruments such as controls over short-term capital flows.

Other Sources of Challenge to the Washington Consensus: Alternative Sites of Resistance

Mounting evidence based on a variety of national cases has clearly helped to undermine the intellectual appeal of the neo-liberal policy agenda and the optimism associated with the early years of the Washington Consensus. At a more concrete and practical level, however, significant challenges have been directed at the prevailing neo-liberal orthodoxy at a variety of different platforms. Mounting protests have emerged in recent years against the costly social consequences of neo-liberal restructuring at local and national levels. The rise of the Zapatista movement and the civil war in Mexico in 1994 could be identified as a proto-type local level resistance to the regressive redistribution effects of neo-liberal restructuring.[20] At the level of the nation state, striking examples of protest include the massive protests in Argentina following the crisis of 2001. The Argentine example is certainly not unique. There has been widespread protests and riots in countries like Indonesia following the Asian crisis. Peru constitutes yet another major case where major protests have been mounted against the negative consequences of the neo-liberal reform process. In many countries including Turkey social protests have been more sporadic but nevertheless present. At a different level, the opposition of certain powerful groups within the industrialized countries, headed by trade unions to some important components of neo-liberalism such as trade liberalization has no doubt contributed to strengthening the challenge to Washington Consensus in much the same way as the Thatcher-

Reagan experiments in the UK and the USA in the early 1980s had reinforced the spread of neo-liberal economic policies in the developing countries.

Yet another source of resistance has been at the level of the emerging global civil society through the medium of the global Non-Governmental Organizations (NGO) with the protests at the WTO meetings in Seattle in early 2000 precipitating a subsequent wave of similar protests at Prag, Rome, Quebec and elsewhere, targeted foremost against the key institutions of neo-liberal globalization such as the IMF; World Bank and the WTO. What is interesting about these global NGOs is that they exploit the advantages of globalization in the realms of technology and communications to present a truly international challenge to neo-liberalism which itself is a global phenomenon in any case. Admittedly, the so called 'anti-globalization' or using perhaps a more appropriate term the 'alternative globalization movement' does not represent a coherent whole or a monolithic bloc with a consistent set of demands.[21] The most influential element within this group is the developed country NGOs, notably the labor and environmentalist groups from the United States which are basically anti-free trade in their orientation. The alternative globalization movement also includes significant elements from the 'south' which clearly favor improved access to developed country markets and technology developed in the north. Hence, there is a certain inevitable clash of interest between the interests of different components of the movement combining protectionist elements from the north and pro-free trade elements from the south, calling for improved access to developed country markets. In spite of its inherent ambiguities, organizational weaknesses and failure to present a clearly and consistently- defined alternative agenda, the significance of the emerging global civil movement against neo-liberalism should not be underestimated.

The kind of pressures that we have tried to highlight so far are pressures from the periphery or challenges posed from below to the dominant structures and institutions of global neo-liberalism. What is interesting in the present context is that an important rethinking process has been occurring in recent years within the dominant establishment itself. Hence, in addition to pressures originating from below that we have already identified, a powerful set of pressures from above have been operating in such a way as to modify the underlying edifice of the neo-liberal policy agenda. Both the World Bank and the IMF in recent years have been trying to respond to serious criticisms leveled against global neo-liberalism, notably in the realms of the reform of the international financial architecture and the process of poverty alleviation. From the very response of these key multilateral institutions one can start to detect the salient elements of a Post-Washington Consensus that effectively constitutes a synthesis of national developmentalism and the neo-liberal policy agenda itself.

Towards a Post-Washington Consensus: Basic Tenets of the Emerging Establishment Perspective

It is possible to discern a noticeable shift in the policy focus of the key Bretton Woods institutions in recent years away from a hard-core neo-liberalism to a new kind of synthesis which could be described as the emerging Post-Washington Consensus. Arguably, the process in this direction started in the World Bank at an earlier stage than the IMF. There has been a renewed interest in poverty and governance issues at the Bank beginning in the early 1990s.[22] Research and publications, particularly influenced by the revisionist accounts of the East Asian success, emphasized the importance of institutions and the need to improve the performance of the state as a necessary ingredient of market-oriented reforms. Research into the transition economies of the post-communist world appeared to provide additional support for the claim that institutions matter and the performance of the state need to be improved in all kinds of transitional economies. Similarly, there was some recognition at the Bank that persistent poverty could not be eliminated simply through the expected trickle-down effects of improved efficiency and rising growth.

The IMF tends to be a more enclosed and a less heterogeneous organization, and less open to self-criticism compared to the Bank. It is perhaps not surprising therefore that serious reform initiatives have come at a later stage in the IMF. The Asian crisis of 1997 proved to be a decisive turning point in this context. The Fund, for the first time in its history, has been confronted with serious criticism from the dominant establishment concerning its handling of the crisis. The IMF was accused not only of failing to predict the crisis, but also for actually making things worse in the aftermath of the crisis. The Asian crisis was also important in terms of producing a serious rift between the two Bretton Woods institutions again for the first time for many decades.

Following the rethinking process that has occurred in the Fund, the institution now tends to pay far more attention to regulatory reforms, notably in the context of the banking and financial system, and recognizes far more than in the past the importance of strong institutions and 'good governance'.[23]

The work of the Nobel Prize winning economist, Joseph Stiglitz, who occupied a critical position as the chief economist of the World Bank at the time of the Asian crisis has been particularly influential in providing the intellectual backbone to the emerging PWC. Needless to say it would be wrong to talk about the PWC as a monolithic entity. Furthermore, a number of other major figures within the dominant academic and policy-making circles of North America have made influential contributions in this context. Dani Rodrik, Paul Krugman, Stanley Fischer, William Easterly and Ravi Kanbur could also be identified as individuals who have made important intellectual contributions in challenging the basic precepts of the dominant orthodoxy. [24]

Nevertheless, in trying to present a stylized picture of the PWC, it would be useful to focus on the work of Stiglitz for two major reasons. First, as a highly respected academic economist and as a key figure at the World Bank his criticisms have carried much weight. The IMF, has always been criticized in the past. Yet, the criticisms up until the Asian crisis had originated primarily from the 'periphery', meaning the intellectuals and policy-makers in the Third World or the kind of radical intellectuals in the north who were located on the margins of the academic and policy-making circles. With the onset of the Asian crisis, however, the IMF, in particular, has been subjected to serious criticism, but this time the criticisms originating from the 'center', within the key Bretton Woods institutions. Stiglitz was particularly vocal in his criticisms of the IMF and his views, more than of any other economist, has been widely publicized.[25] Secondly, in a number of his recent publications he has tried to provide a coherent alternative to the basic pillars of the Washington Consensus.[26] Based on the contributions of Stiglitz, we can provide a concise stylized picture of the PWC that has increasingly influenced the overall thinking process of key institutions such as the World Bank and the IMF in recent years.

Perhaps the key element of the PWC is the recognition that states have an important role to play in the development process. In the simple-minded versions of neo-liberal orthodoxy, expanding the domain of the market had necessarily meant reducing the domain of the state in the economy. Whilst, the PWC also favors liberalization of the economy and greater reliance on the market; states and markets are conceived of as complements rather than substitutes. The role of the state in fostering the development of the market is considered to be critical in a number of important respects, the underlying vision no doubt influenced by the revisionist, institutionalist accounts of East Asian success in the pre-crisis era.

In highlighting the activist role of the state in a predominantly open and market-oriented environment, regulation of the financial system receives particular emphasis based on the recognition that excessive risk taking by undercapitalized banks can be a major cause of crisis. Proper regulation of the financial system is important in terms of mobilizing capital, giving depositors more confidence in the banking system and improving allocation of investment. Moving beyond the realm of financial regulation, state support for education is considered to be critical in supplying high quality manpower. Furthermore, states should provide infrastructure or should, at least, ensure through regulatory action the private provision of infrastructural services such as transportation at reasonable prices. The fact that states can play a vital role in developing and transmitting technology (such as agricultural extension services) is also recognized. Finally, states can help promote equality and alleviate poverty, acknowledging the fact that such policies in East Asia have contributed to overall growth.

Hence, a certain similarity can be detected between the PWC and the structuralist logic underlying national developmentalism that preceded the neo-liberal area. Market failures are considered as important and they need to be corrected by active state interventionism. Yet, the logic of the PWC goes one step further than national developmentalism in line with the neo-liberal critique by focusing on the question of how to improve the performance of the state and avoid ‘government or state failure’ in the first place. The important contribution by Stiglitz in this respect is by highlighting the fact that the effectiveness of states can be improved by using market-like mechanisms. An interesting symmetry is established by noting that states are important for the effective functioning of markets but also markets or market-like mechanisms are important for the effective functioning of states themselves.

The importance of the market for improving the performance of the state embodies the following crucial elements. Firstly, internal incentive structure and reward systems are critical for improving the quality of state bureaucracy. Secondly, competition is crucial to governmental efficiency; states can help to stimulate competition and benefit from competition themselves. States can create competing public agencies and encourage private firms to compete with public agencies. Indeed, competition is arguably more important than private ownership *per se.* State-owned firms have managed to perform as effectively as private firms when they have been subjected to competitive pressures. Hence, privatization at all cost that fails to pay sufficient attention to competition and ignores the role of a proper regulatory infrastructure is inconsistent with the logic of the PWC.

There is a clear recognition that the international economy during the recent era fails to provide a sufficiently attractive environment for development. Private capital flows to the south are heavily concentrated in certain countries. Aid flows have experienced a drastic decline in recent years and continued restrictions by developed countries over market access in key areas like agriculture continue to constitute a major barrier to developing country exports. The basic precepts of the PWC are thus not confined to the domestic sphere but also embody an international dimension. Industrialized countries can contribute to development by increasing aid and market access to LDC products.

In retrospect, a key element that distinguishes the PWC from the early neo-liberal agenda involves recognition of the importance of a change in institutions as an essential component of the new development strategies. Creating effective institutions becomes part and parcel of successful development. Similarly, much more emphasis is given to social and income distributional consequences of economic policies. For example, improved education and health are not only mere instruments in terms of increasing growth but also constitute ends in themselves. In achieving fiscal discipline attention is centered on where expenditure cuts are concentrated. It is recognized that if deficit reduction is achieved through cuts in government expenditures in education and health then growth will be jeopardized.

Finally, the growing recognition of the importance of democratic regimes in creating transparent and accountable states becomes one of the hallmarks of the emerging PWC. This aspect again sharply differentiates the PWC from the earlier days of the Washington Consensus. The early, hard-line versions of neo-liberal thinking, in line with its Hayekian political economy foundations, had clearly underestimated the importance of democracy and democratic institutions in the effective implementation of the reform process. Indeed, there was an active attempt to depoliticize the economic decision-making process if not the society at large and restrict the domain of democracy as a means of fostering the smooth and speedy implementation of market-based economic reforms. The subsequent experience in many parts of the world ranging from Latin America to post-communist Eastern Europe has clearly demonstrated the economic costs of attempting to combine neo-liberal economics with illiberal democratic forms of governance with the costs manifesting themselves in the form of widespread corruption and state failure.[27]

The Emerging Post-Washington Consensus in Critical Perspective

There is no doubt that the kind of synthesis that forms the intellectual basis of the PWC represents a considerable improvement over the rather simplistic neo-liberal understanding of development that had constituted the very basis of the earlier Washington Consensus. Not only is the need for an active role for the state in dealing with important market failures, most notably in the realm of finance, is duly recognized, but also attention is given to the fundamental issue of how to improve the performance of the state itself in trying to overcome market failures. The latter issue certainly had not received any serious attention in the pre-neo-liberal era in the age of national developmentalism. Structuralist development theorists had assumed that ‘the state’ or ‘planners’ would always act in a benign fashion in the public interest, failing to consider the political and institutional pre-requisites for effective state intervention in the process. The new synthesis embodied in the PWC clearly represented progress over the structuralist and neo-liberal formulations by trying to tackle the question of how to improve the performance of the market and the state simultaneously through their mutual interaction.

Additional strengths of the new synthesis embodied in the PWC lay in the recognition of the crucial role that institution-building and democratic governance can play in the process of successful development, elements that had been woefully neglected by the neo-liberal hardliners. Similarly, the PWC represented a more refined understanding of development through a shift of focus from an exclusive and single-minded concern with growth and efficiency to a more nuanced understanding of development that emphasized the importance of additional policies to deal with key social problems such as pervasive unemployment, poverty, and inequality.

In spite of the obvious strengths associated with the emerging PWC outlined above, a closer investigation also reveals some of its rather striking limitations, particularly as this new line of thinking is put into actual practice by the key international organizations such as the World Bank, the IMF and the WTO. We believe that the following limitations of the PWC are especially worth highlighting.

Firstly, in the practical application of the new policy agenda one may clearly diagnose a systematic bias towards domestic reforms as opposed to systemic or global reforms. For example, the IMF, in line with the new thinking has been emphasizing in recent years the importance of regulatory reforms, particularly with reference to banking and finance. Clearly, one can detect a shift in the IMF's approach away from a single-minded concern with short-term stabilization to longer-term structural and institutional reforms designed to improve the performance of the market mechanism over time. Yet, at the same time, the IMF has been totally impervious to suggestions involving the implementation of heterodox policy instruments such as temporary short-term capital controls that have proved to be quite successful in certain national contexts.[28] Indeed, the IMF has been impervious to any kind of suggestion that attempts to deal with endemic financial crises in the semi-periphery as a global market failure would necessarily require global measures such as an internationally coordinated (Tobin) tax on short-term capital flows as an integral part of reforming the international financial structure. It is fair to say that both the IMF and the World Bank tend to locate the principal source of frequent financial crises squarely in the domestic political economies of the debtor countries concerned.[29] Hence, the focal point of their attention becomes that of improving the regulatory structures of the countries concerned at the expense of all other considerations.

Yet, self-interest and power relations as the overriding factor in the history of international economic relations have been much in evidence also in the post-Second World War period. The hierarchy in economic and political power has been the key determinant of economic outcomes not only between developed and developing countries but also among the developed countries themselves with power relations from the most powerful in the center circle spreading to the periphery in the form of concentric circles. The conflicts between the United States and Japan and Germany on trade and exchange rate issues are well documented. The dominance of developed countries in the world economy is extensive, encompassing production, finance, trade, and technology. For example, the fact that over 90 percent of all patents originates in these countries point to their technological supremacy. Two-thirds of world trade is controlled by only 500 transnational corporations (TNCs), originating again mostly from these countries.[30] As developing countries seem to have entered a race amongst each other to attract foreign investment at all cost, governments even in developed countries seem to be facing difficulties in coping with the growing power of these enterprises. Despite the considerable progress developing countries have made towards trade liberalization in recent years, developed countries have been slow in replicating this in terms of granting increased market access for developing country exports.

In the hierarchic power relations as dominated by self-interest, the demands of developing countries for a more democratic international economic environment has fallen on deaf ears even when these countries could raise a united and powerful voice in 1974 for the creation of a New International Economic Order. The radical reform of the international economic system may, in principle, be still relevant for the emergence of an international environment more conducive to development. In particular, the need to democratize international financial institutions to give them a pro-Third World orientation and to establish effective international mechanisms for the regulation of TNCs with the objective of curbing their monopoly power and for controlling the massive short term capital flows as a source of short-term instability in developing countries emerge among the most pressing issues in this respect. However, the prospects for developing countries to repeat even this abortive challenge now is rather slim, given the deep divisions among them and the increasingly lopsided international power structure.

Our emphasis on lopsided power relations in the international sphere should not in the least detract attention from equally pressing issues on the domestic front which are also sidelined by the PWC. The latter's emphasis on independent regulatory bodies with the objective of preventing political interference ignores the formidable obstacles they may face in societies dominated by powerful vested interest groups, blocking their effective operation. Although there has been some progress towards democracy within individual developing countries, the political obstacles blocking the spread of the benefits of development to the lower strata of population are far being removed. The state may not fulfill even its limited role under the PWC as the weakening of the state apparatus and more importantly the very notion of effective state intervention have been substantially eroded under neo-liberalism. Another factor to be taken into account in this respect is that the neo-liberal bombardment and practice of the past two decades may have had a lasting impact on state agents and officials alike, impairing their ability to readjust to a new agenda involving fresh thinking at least in certain spheres, such as poverty alleviation. It is, therefore natural to expect that efforts of national governments in the direction of poverty alleviation and more equal income distribution are not likely to make a significant impact unless the obstacles in the way of the poor and the underprivileged to express themselves as a powerful political force are removed.

Secondly, one may pose the question of how sincere is the renewed concern of key Bretton Woods institutions with income distribution and poverty alleviation. A whole set of issues needs to be considered in this context including the feasibility of significant redistribution within the broad fiscal constraints of neo-liberal re-structuring. Here, one also needs to make a firm distinction between rhetoric and action. The proponents of the PWC, in particular the Bretton Woods Institutions seem to shy away from carrying out a balanced analysis of the neo-liberal globalization process, in particular from identifying the channels that lead up to the marginalization of whole regions and large sections of population within the developing countries from the benefits of this process. They also ignore mounting evidence linking progress in poverty alleviation crucially with a whole set of distributional issues, including ownership patterns. It cannot be viewed as a sheer coincidence that the attempts to link these considerations with poverty in the preparation of the World Bank's World Development Report 2000-2001 should meet the opposition of the higher echelons of power, including the US Treasury, leading to the resignation of the chairman of the team preparing the report, Ravi Kanbur.[31] Proponents of the PWC emphasize the importance of increased capital flows, including official aid, and market access for countries of the south. As the reform of key international institutions has been on the agenda over a period of three decades with little progress, serious question marks can also be raised about the possibility of translating the favorable rhetoric on poverty and income distribution into action in the presence of severe domestic and international constraints.

One should also take into account the fact that poverty and inequality issues are effectively sidelined in emerging markets like Argentina and Turkey that experience financial crises on a frequent basis. The IMF becomes the dominant external actor in the context of such countries, with the World Bank typically relegated into secondary status. Given the focus of the IMF on short-term adjustment and regulatory reforms, conditions relating directly to poverty and inequality fail to be incorporated into its stand-by programs in these countries. In fact, the obsession of these programs with the creation of a primary budget surplus necessarily interferes with social sector spending and no doubt raises serious doubts about the sincerity of the IMF on the poverty alleviation issue. In fact, one gets the strong impression that the Bretton Woods Institutions are effectively using the poverty issue as a pretext for broadening and deepening the neo-liberal agenda.

Thirdly, the ability to increase employment is of crucial significance not only for economic reasons but also for maintaining social cohesion in the countries concerned. The employment issue, however, as an explicit objective in its own right, is not sufficiently emphasized by the PWC. This neglect can be traced more broadly to the capture of domestic economic policy agendas of most developing countries by the Bretton Woods Institutions. Even countries that do not have formal agreements with these organizations seem to have been carried away with a vague globalization objective and seem to be devoid of all forms of national development objectives. The international economic environment at present is not conducive to successful industrialization of developing countries not least because national governments have lost the bulk of the tools they have traditionally used towards this objective and neither the Washington Consensus nor the PWC has cited it among the list of their priorities for these countries. In the same vein, crucial decisions concerning the need to develop a strong domestic technological base are also effectively relegated to the background. This means that the primary emphasis on obtaining technology is implicitly placed on foreign investors, limiting the crucial role that domestic actors can play in the realm of increasing domestic technological capabilities Yet the experience of successful countries have shown that a high investment rate, emphasis on industrialization through selective and targeted industrial policies in capital intensive and skill-and technology-intensive activities with a high domestic value added content as propelled by rapid export growth have been the key to their success.

The poor record of the neo-liberal model in generating employment may be traced to some of the internal inconsistencies of the policy package that it involves. The emphasis on financial liberalization and the windfall gains it has offered through speculation and risk-taking have meant the accumulation of economic surplus in the hands of rentiers, a class of people not renown for their enthusiasm for industrial investment. Without investment in directly producing sectors, shear reliance on extending neoclassical wisdom to this sphere through emphasis on labor market flexibility is not likely to generate employment on a scale sufficient to alleviate the immense pressures on the supply side of labor markets and bring about a significant turnaround in the prospects of unskilled labor. The concern of PWC with education and human capital formation is justified but is not sufficient. Both the demand and supply sides of the labor market need to be taken into account. Education fetishism results in a certain lack of emphasis on key issues that are directly relevant to the debate on employment prospects. For example, the existence of a large pool of highly-educated manpower without sufficient growth in directly producing sectors like manufacturing to provide productive employment for them may represent a source of unemployment and brain drain. Likewise, the absence of global redistributive mechanisms and the fact that channels of international migration for unskilled or semi-skilled labor are largely closed are issues which tend to be underplayed in discussions pertaining to employment prospects in the south.

Fourthly, the PWC is associated with a rather unbalanced approach towards the regulation of TNCs which constitute highly powerful actors in the world economy. The common element in the Washington Consensus and the PWC is to relieve the TNCs from regulation by host states. Yet, TNCs, by definition are large oligopolistic firms that wield considerable economic and political power exercised on a global scale. Hence, their activities need to be regulated also at the global level. A balanced approach towards the regulation of TNCs, involving also the interests of those of the consumers and host countries fails to receive the kind of attention that it deserves in the emerging agenda of the PWC.

Fifth, it seems that the key Bretton Woods institutions will continue to play a prominent role in the implementation of the PWC as they have done under the Washington consensus. This may lead to the justifiable charge that these institutions which may be held responsible for much of the damage under neo-liberal reforms are again put in the driving seat in a process set up to rectify it. Such a choice is problematic on several counts, arising largely from the big credibility gap that exists between these organizations and the development community at large.

Although we do not have full knowledge of the decision-making processes within the Bretton Woods institutions, it is fair to assume that they are not monolithic organizations representing a high degree of agreement within major segments in their internal structures. The shift in World Bank policy from basic needs to structural adjustment in the 1980s and back to poverty in the 1990s and the more recent changes within the IMF broadening their agenda to encompass governance issues are cases in point These changes reflected as much the balance of power within the organization as the interests of hegemonic countries as determined by changing international environment, leading to the serious charge that these organizations act in the interests of these countries most notably the United States. The Washington Consensus itself may have been molded by these institutions with a close eye on US interests.[32] More specifically, one could argue that the primary concerns of the US were to achieve market access for American exports as well as preventing the emergence of major breakthroughs in industrialization that would threaten US industry over time as Japan and South Korea had so successfully done in the past. Policy shifts towards foreign trade liberalization and export orientation in much of the developing countries through neo-liberal reforms under the auspices of Bretton Woods Institutions, for example, has thus been linked as much with the competitiveness problems of US industry and increasing the debt-repayment capacity of these countries as with growth and efficiency considerations associated with greater export-orientation. More recently, there were widespread press reports that IMF support of Turkish stabilization efforts were linked with Turkish stance vis-a-vis US policy in the Iraqi conflict.

The current emphasis of these organizations on democratic governance is hardly consistent with their past record. Turkey's adoption of neo-liberal policies in early 1980 in close collaboration with the World Bank (through successive structural adjustment loans) and the IMF through a three year stand-by agreement, for example, took place against the background of a repressive military regime. The fact that the two institutions did not have any scruples in working in tandem with the military regime and were silent when key democratic institutions and activities of powerful NGOs were severely curbed has understandably reduced their credibility with respect to their efforts to play the role of champions of democracy shortly thereafter. The fact that in the drawing up of structural adjustment loan agreements which represented by far the biggest transformation of Turkish economic policies the World Bank kept a low profile was hardly consistent with the precepts of good governance. Likewise, a great deal of secrecy surrounded the standby-agreements that Turkey signed with the IMF during this period. The association of the rise of neo-liberal policies in tandem with authoritarian regimes is not of course in the least confined to the Turkish case, with Chile in after 1973 and Argentina after 1976, presenting other notable cases.

In their basic structures and decision-making processes and other operations these institutions hardly obey the stipulations of good governance which has justifiably led to calls that they should set an example by applying standards of good governance such as transparency, accountability and participation to themselves.[33] To the extent that implementation of neo-liberal policies have through the deliberate weakening of the state apparatus and encouragement of rent-seeking have contributed to corruption, these institutions now find themselves again in the paradoxical situation of repairing the damage to which they themselves contributed in no small way. The deliberate depoliticization of society at all levels through repressive regimes in Turkey and elsewhere was crucially needed for neo-liberal reforms to take root. It also probably explains the weakness of the opposition to neo-liberal policies and the inability to provide a viable alternative to these policies. However, the same process of depoliticization is perhaps also and somewhat paradoxically responsible for the slow progress towards the emergence of effective NGOs and transparency and good governance in public administration that these institutions emphasize at the present juncture.

The World Bank as admittedly the more developmental of the key Bretton Woods institutions needs to explain why it has been silent on the poverty issue throughout the 1980s when neo-liberal policies implemented during this period did a great deal of damage in this sphere.[34] Even after the re-emergence of poverty alleviation as a major objective during the past decade, the record of these institutions in this sphere has not closed the credibility gap. The fact that the recent Turkish economic program drawn and implemented in close collaboration with the IMF in the midst of a deep economic crisis with a devastating impact on poverty was silent in this respect is a case in point. Likewise, the efforts of the World Bank have fallen far short of what was needed to come to grips with the problem. In fact the strength of the commitment of these organizations to the poverty alleviation objective is itself highly questionable giving the impression that they have used the poverty alleviation objective to cope with the increased criticism neo-liberal reforms have attracted and also to broaden and deepen these reforms.[35]

The ability of Bretton Woods Institutions to come to grips with the problems faced by developing countries has been increasingly questioned in recent years. The failure of the IMF during the past decade in such crucial spheres as the prediction and prevention of short-term economic crises in various parts of the world and in effectively dealing with them once they emerge has been a source of major criticism, with serious questions raised about the future of these organizations.[36] The failure of the IMF in particular to learn from past mistakes provided additional ammunition for the critics and contributed to the erosion of confidence for this organization. For example, in Turkey, the IMF like domestic policy-makers has not drawn the necessary lessons about the hazards of financial liberalization without sufficient regulation and legal safeguards. As a result, capital account liberalization after 1989 resulted in successive financial crises with dire consequences. Domestic financial liberalization per se was not immune from financial crises either as the “bankers’ crisis” of 1982 had clearly testified. Likewise, the IMF by not warning the Turkish policy-makers about the risks and dangers of overexposure to short-term external capital before the successive crises of the past decade has proven to have a short memory as the Turkish crisis of the late 1970s could also be traced to a similar phenomenon..

The involvement of these institutions during neo-liberal restructuring has been extended to most developing countries in a broad range of policy areas. This together with the broadening of their conditionality, now extending also into the political sphere has been instrumental in eroding self reliance and domestic problem solving ability in these countries. One could argue that the excessive involvement of the IMF in the domestic policy-making process of individual countries and the uniform set of conditions imposed regardless of the respective institutional and political capacities of individual countries has effectively prevented countries from generating appropriate domestic responses to their problems, undermining also learning in the process of institution building. Perhaps in certain circumstances reform could only be engineered in a top-down fashion. Yet, the top-down approach has led to a situation where reforms have been engineered without generating the requisite social consensus, hence undermining the longer-term viability of the reform process and the effectiveness of some of the key regulatory institutions imposed in a top-down fashion.

Finally, the PWC places major importance on the creation of transparent and accountable institutions as a basis for improved economic performance. The focus of attention, however, is on creating transparent and accountable institutions at the domestic level within the domain of the individual nation state. The same kind of concern with creating transparent and accountable institutions does not seem to extend to the international sphere. Issues concerning how to make the IMF, the World Bank and the WTO more transparent and hence democratically accountable in their operations as well as problems arising from their power structure as dominated by developed country interests receives only cursory attention by the intellectual proponents of the PWC as well these institutions themselves.

All these considerations point towards a deeper, more fundamental problem that lies at the heart of the emerging PWC, namely the inability or unwillingness to address major issues pertaining to power and its distribution both at the domestic and international levels. Clearly, the emerging PWC represents the response by the dominant establishment to the deficiencies of the neo-liberal agenda and an attempt by them to overcome such deficiencies through a set of reforms that takes the existing structures of power as given. This could be justified on the grounds of what is practical and feasible in terms of improving economic performance, in the short-run. Yet, in the long-run, such reforms may represent a partial and insufficient response given the scale and depth of the problems involved as headed by pressing issues like increased unemployment, poverty and inequality at the global level.

Concluding Observations

The very foundations of the neo-liberal orthodoxy that informed the thinking of the key Bretton Woods institutions have been dramatically shaken in the context of the 1990s. The process of neo-liberal restructuring has been associated with a weak growth performance, persistent poverty, rising inequality and endemic crises with costly ramifications. It was also striking to observe that countries which have been performing better than average have typically been countries that have managed to deviate from rigid neo-liberal norms in certain critical respects. Consequently, the dominance of the neo-liberal paradigm has been challenged both from the center and the periphery, in other words from within and outside the dominant academic and policy-making establishment. Undoubtedly, it was criticism within the establishment that was decisive in the gradual progression towards a new kind of consensus among the key international financial institutions, aptly labeled as the Post-Washington Consensus. The intellectual contributions of scholars like Stiglitz also played a critical role in this respect.

The basic precepts of the emerging post-Washington Consensus represent a novel synthesis of the two previously dominant paradigms in development theory and policy, namely national developmentalism with its emphasis on the critical role of the state in overcoming market failures and neo-liberalism with its unfettered belief in the benefits of the free market. The new approach recognizes the importance of the state in the context of open markets and a more liberal policy environment. But, at the same time, it recognizes the need to avoid state failure which in turn, requires institutional innovation and democratic governance. Furthermore, the new approach places significant weight on the need to tackle poverty and inequality issues, as objectives in their own right, hence, moving away from an exclusive pre-occupation with growth and efficiency objectives at all cost. In all these respects, the emerging PWC represents a more progressive approach to development as compared with the naïve and unqualified application of the Washington Consensus.

Nevertheless, important limitations may also be detected in the emerging PWC itself. A central criticism is that the emerging PWC adopts a rather narrow and technocratic approach towards state-market interactions at both the national and global levels. It takes the existing power structure as pre-determined. Hence, it fails to address the fundamental power relations and asymmetries of power that exist between classes at the level of the nation state and powerful versus less powerful states in the global economy although it is these very power relations that need to be challenged if key development issues are to be tackled in a comprehensive manner. In this context, the horizons of both the World Bank and the IMF tend to be rather limited.

For more immediate and practical purposes, however, it is also important to recognize that the broad agenda of the emerging PWC is not equally shared or welcomed by both of these institutions. There is no doubt that the IMF has experienced a serious identity crisis after the Asian crisis and has been trying to reform itself perhaps more intensively than at any other time in its history. Nonetheless, the IMF has a more restrictive vision or understanding of what ought to be the fundamental components of the new PWC. For practical purposes, this has an important implication. The IMF continues to be the dominant actor notably for the more advanced, crisis-ridden 'emerging markets' of the semi-periphery, with the World Bank with its more progressive vision of the PWC occupying only a secondary and supporting role in such contexts. The focus of the Fund on short-term financial discipline and regulatory reforms therefore constitutes a serious additional constraint on the application of some of the more progressive elements of the PWC, designed to deal with poverty, inequality and the longer-term competitiveness of national economies. Likewise, industrialization which was the overriding development objective under national developmentalism was wiped out of the agenda under neo-liberalism. There is no sign that this objective will be reactivated under the PWC. Yet the historical experience of developed countries as well as those of successful industrializers in the Third World has provided sufficient evidence that progress in this sphere goes hand in hand with developing domestic technological capabilities and generating employment.

The spread of neo-liberal ideas to developing countries as well as the post-communist transition economies has gone a long way in reinforcing the view that there was no alternative to these policies. The criticism leveled against these ideas by the emerging Post-Washington Consensus while falling drastically short of coming to grips with the main issues involved still represents a large crack in the neo-liberal armory and may lead to fresh thinking and accelerate the search for viable alternatives. The questions of whether the emerging Post-Washington Consensus together with the flourishing alternative globalization movement against the background of increasing distributional imbalances at all levels will bring about such an outcome or indeed if they do, how soon remains at this stage a matter for conjecture.

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[1] On the resurgence of neo-liberal thinking in development, see, Colclough and Manor (2000),Preston (2000), Toye (1987).

[2] For powerful expositions of this line of thinking, see, Lal (1983) and Little (1982).

[3] On the political economy dimension of neo-liberal resurgence, see, Colclough and Manor (2000).

[4] For an elaboration of this perspective, see, Little (1982).

[5] Among the most influential of such studies are Amsden (1989) on South Korea and Wade (1990) on Taiwan. Also relevant in this context is Öniş (1998:197-216; 261-84).

[6] See Rock (1993) and the annual Trade and Development Reports published by UNCTAD for different years.

[7] For evidence, see, UNCTAD(1999); Pamuk (2002); and Kozul-Wright (2003).

[8] For evidence of rising inequality during the neo-liberal era, see, Akyüz et al. (2003), UNCTAD (1997), Wade (2001a, 2001b).

[9] See Fischer (2003: 8).

[10] For a detailed elaboration of this point see, Şenses (2003, 2001).

[11] Indeed, international organizations like the World Bank have started to give increased attention to this issue in the mid-1990s. For World Bank's initiatives to deal with corruption, see the World Bank Anticorruption Website, available at <http://www1.worldbank.org/publicsector/anticorrupt/index.cfm>.

[12] Indeed, the two phenomena are interlinked. Countries that have experienced frequent financial crises are also countries that have been characterized by widespread corruption.

[13] On the rise and fall of neo-liberalism in Argentina, see, Baer et al. (2002).We need to note that there is some controversy over the extent to which the IMF itself favored the rigid version of the convertibility plan that was put into effect by the Minister for the Economy, Domingho Cavallo.

[14] See Şenses (1991).

[15] On the Turkish neo-liberal experiment, see, Öniş (1998), and Şenses (1991). On the recent set of crises and their costly ramifications, see, Öniş and Rubin (2003).

[16] On the growth performance of the Chinese economy and the nature of the heterodox instruments employed, see, Ma (1999). On Vietnam's success with gradualist economic reforms, see, Truong and Gates (1996).

[17] On the gradualist path of the reform process and successful economic performance in India in the 1990s, see, Ahluwalia (1999).

[18] See Kozul-Wright (2003:12).

[19] For a positive view of Malaysian capital controls, see, Kaplan and Rodrik (2001). For favorable evaluations of capital controls in the Chilean context see, Krugman (1998) and Stiglitz (1999).

[20] For examples of widespread resistance to neo-liberal globalization at the local level see, Mittelman (2000).

[21] On global civil society and global NGOs see, Scholte and Schnabel (2002).

[22] For World Bank studies emphasizing the importance of good governance and the need for increased emphasis on poverty reduction, see World Bank (1990) and World Bank (2000). For the influential report published by the World Bank on the "Asian Miracle" stressing the role of the state and the importance of effective institution building in the development process, see World Bank (1993). On transition economies, see World Bank (1996), and on the state, see, World Bank (1997).

[23] See, for example, the speeches made by Stanley Fischer (2002) who as the Vice-President at the Fund played an active role in this self-evaluation process following the Asian crisis. Available at Stanley Fischer Biographical Information IMF web page, <http://www.imf.org/external/np/omd/bios/sf.htm>.

[24] Among the influential contributions in this context see, Rodrik (1999, 1997), Krugman (1990), Easterly (2001).

[25] The key elements of his criticisms concerning the IMF have been summarized in Stiglitz (2002). The fact that he was awarded the Nobel Prize during this period undoubtedly played an important role in the publicity that he received for his views.

[26] For a useful exposition of the basic propositions associated with the PWC, see, Stiglitz (2001).

[27] For an attempt to deconstruct the costly consequences of trying to implement neo-liberal reform in the context of an illiberal democracy with reference to the Özal era in Turkey, see, Öniş (2003).

[28] Reference to the fact that some IMF officials have recognized that controls over short-term capital flows might have played a positive role in avoiding financial crises in Malaysia and Chile. In this context , see, Ariyoshi et al. (2000: 22-3, 26-8, 37) and Robinson (1999). Nevertheless, the IMF has been rather unreceptive to the kind of arguments representative of views from the 'periphery' such as Wade (1998) that emphasize the global causes of emerging market crises and, hence, the reform of the international financial architecture with special emphasis on capital controls.

[29] See, Armijo (2001) in this context.

[30] See Kozul-Wright (2003).

[31] See Wade (2001c) and Kanbur (2001).

[32] Gore (2000:790) seems to suggest such a link.

[33] See Woods (2000).

[34] See Şenses (2001: 39-44).

[35] In the Turkish case for example the extension of neoliberal reforms in the domain of agriculture, social security and the labor market has been closely linked with this objective.

[36] The American Economic association annual meeting in 2003 had a special session on this subject. See American Economic Association, Papers and Proceedings, May, 2003.

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