

## Book reviews

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doi:10.1017/S1474745609004303

### **The Washington Consensus Reconsidered: Towards a New Global Governance**

edited by Narcis Serra and Joseph E. Stiglitz

Oxford, UK: Oxford University Press, 2008

This volume collects papers produced for a two-day seminar held in Barcelona in 2004. The first section includes the two papers directly relevant to the debate over the Washington Consensus – an excellent short history of the term by John Williamson, the man who coined it in 1989, and a paper by Joseph Stiglitz outlining his critique of policies included in his version of the ‘Washington Consensus’. It also includes a short paper by Paul Krugman on income inequality, designed to back-up criticism of the Washington Consensus for failing to address that issue, plus ‘The Barcelona Development Agenda’, a four-page statement of the consensus among seminar participants on what a new development agenda might look like.

Two-thirds of the volume is taken up with eight papers dealing with what the editors label ‘central issues in development’, including macroeconomic stability (Jose Antonio Ocampo), industrial policies (Alice Amsden), financial issues (one by Guillermo Calvo and Ernesto Talvi, and one by Daniel Cohen), labor markets (Olivier Blanchard), international migration (Deepak Nayyar) and – of particular interest to readers of this journal – two papers on trade and the WTO, one an excellent overview of several issues by Jeffrey Frankel and one by Martin Khor that will warm the hearts of those who are skeptical of the benefits for developing countries of both trade liberalization and the WTO.

A final section entitled ‘Towards a new global governance’ contains three papers: one by Stiglitz on the future of global governance, and two centered on ‘growth diagnostics’ – one by Ricardo Hausmann, Dani Rodrik, and Andres Velasco, and one by Dani Rodrik – defined as a strategy for figuring out policy priorities which recognizes that the circumstances in each country are different and thus that growth strategies ‘are likely to differ according to domestic opportunities and constraints’.

## Washington Consensus defined

Along with providing a brief history of the term and suggestions for updating the policy prescriptions, Williamson's paper helps us to better understand the intense debate surrounding it by noting that there are at least three different definitions of 'Washington Consensus' in widespread circulation. The original is the one he coined in a 1989 conference paper, which identified ten reforms: fiscal discipline, re-ordering public expenditure priorities, tax reform, liberalizing interest rates, a competitive exchange rate, trade liberalization, liberalization of inward foreign direct investment, privatization, deregulation, and property rights. Alternatively, the term came to be used to refer to 'the policies the Bretton Woods institutions applied towards their client countries' (with encouragement from the US Treasury). He feels this was 'a reasonable, well defined usage' initially, adding that this was less true as those institutions came to advocate that countries should: (a) either fix their exchange rate or let it float freely, and (b) liberalize their capital accounts (his version mentions only inward FDI).

Coming to the third interpretation of the term 'Washington Consensus', Williamson notes that it treats the term 'as a synonym for neoliberalism or market fundamentalism'. He continues:

This I regard as a far more dramatic deviation from the original intent and a thoroughly objectionable perversion of the original meaning ... Yet most of the diatribes against the Washington Consensus have been directed against this third concept, with those using the term this way apparently unconcerned with the need to establish that there actually was a consensus in favor of policies they love to hate.

The footnotes leave no doubt that Stiglitz was one of the inspirations for this observation.

## Is there a post-Washington Consensus consensus?

In answering this rhetorical question, Stiglitz unapologetically works with the neoliberalism/market fundamentalism interpretation of the term. We are in a world where policy prescriptions stem from a strong but unwarranted faith both 'in unfettered markets' and in the importance of 'reducing, or even minimizing, the role of government'. He traces the failures of this version of the Washington Consensus to a lack of 'understanding [of] economic structures within developing countries', to a focus on 'too narrow a set of objectives', and to a reliance on 'too limited a set of instruments'.

After developing these themes in some detail, Stiglitz concludes the paper with his list of 'some elements of an emerging consensus'. These include recognizing: (a) the importance of involving more people from the developing world in policy formation, (b) that one-size-fits-all development policies don't work, (c) that '*countries should be given room to experiment, to use their own judgment, and to explore what might work best for them*' (emphasis in the original – interestingly, this point is made in the context of the timing of trade liberalization),<sup>1</sup> (d) that successful development requires a

<sup>1</sup> This 'element', in particular, draws attention to the near total neglect, among advocates of new approaches to development, of the extensive literature on public choice theory, rent seeking, and agency capture. Where is the mention of the beneficial role of *external* pressure – from international organizations, international obligations,

balanced role – not minimal role – for the state, (e) the importance of strengthening both market and state institutions, and (f) the need to move beyond measuring success in terms of GDP growth to include distributional issues and environmental and social sustainability.

To a greater or lesser degree, all of these elements can be found in the ‘Barcelona Development Agenda’. It’s also apparent that the desire to have that Agenda adopted by consensus among 27 participants of varying economic and political ‘persuasions’ meant the text had to have a ‘balanced’ tone. For example, the first of the Agenda’s seven ‘sets of lessons’ begins as follows:

both basic economic reasoning and international experience suggest that institutional quality, such as respect for the rule of law and property rights, plus a market orientation with an appropriate balance between market and state, and attention to the distribution of income, are at the root of successful development strategies.

Similarly, the Agenda’s brief treatment of multilateral trade negotiations – which does *not* attack the WTO, and which explicitly notes that ‘some of the developing countries may limit their potential growth through inappropriate trade policies’ (it would be amusing to know which individual(s) insisted on ‘may’ being inserted) – is unobjectionable. Indeed, it is hard to imagine any serious student of economic development finding much to quarrel with in the Barcelona Development Agenda.

The WTO fares less well in Stiglitz’s second paper in the volume, dealing with ‘global governance’, defined as ‘the behavior of public institutions’. In the first paragraph he cites WTO rules governing international trade as an example of ‘grossly unfair’ international ‘laws’ (although to be fair much of the paper’s criticism of WTO rules focuses on the TRIPs Agreement where, in my view, the WTO is by far the most vulnerable).<sup>2</sup> The IMF and the World Bank, of course, also come in for criticism, as do the G8 and the Economic and Social Council. Underlying democratic deficiencies, reflected in both outcomes and procedures, is the common denominator – deficiencies that he sees stemming from the fact that economic globalization has outpaced political globalization.

Stiglitz is guardedly optimistic, counting on both ‘self-interested motives for change’ and ‘democratic forces for change’ to bring about the needed improvements in global governance. But he worries whether the change ‘will come fast enough’, predicting that if it does not, it will be difficult to maintain increasing economic globalization.

The case for improving governance at the global level is a natural extension of the work that earned Douglass North a Nobel Prize in 1993. Analyzing the role of institutions at the sub-national and national levels in early European and American economic growth, as well as in the post-war growth in developing countries, he demonstrated convincingly that the extent to which institutions, as they evolve, create – or

and trading partners – as an aid to reform-minded ministers confronting politically powerful and entrenched special interest groups?

2 Considering the amount of time Stiglitz spends criticizing the GATT/WTO system, it would be helpful if he were correctly informed about at least the basic principles of the system. As an example, consider his statement in the footnote on page 9 of the book under review: ‘But the alternative [to subsidies], tariff protection or quotas, are not allowed under the WTO regime.’ There is a general prohibition of quotas, but tariff protection is perfectly legal. It is true there is some pressure to reduce tariffs during trade rounds, especially if the country is making its own demands on trading partners, but there is no legal obligation whatsoever to respond to those pressures.

fail to create – a favorable environment for cooperative solutions to complex economic exchange is an important determinant of a country's rate of economic growth.

There is no doubt that economic globalization – fueled by ever-more complex production and distribution chains – has reached the point that North's findings apply with equal force at the international level. And, while many of Stiglitz's suggestions for improving global governance are controversial and/or appear impractical to his critics, you do not have to accept his solutions to agree that he has identified a serious and urgent problem area in international economic relations.

### Recent developments

Two recent developments have drawn attention to many of the issues raised in *The Washington Consensus Reconsidered*.

In May 2008 the World Bank's Commission on Growth and Development (consisting mainly of policy makers from developing countries), released a new report entitled *Growth Report: Strategies for Sustained Growth and Inclusive Development*. The accompanying Press Release quotes World Bank President Robert Zoellick: 'This report underscores to the development community that one size doesn't fit all', as well as Danny Leipziger, Commission Vice Chair and Vice President for Poverty Reduction and Economic Management at the World Bank: 'We are acutely aware that there are no silver bullets to create long-running, inclusive growth, and that no single paradigm exists ... the report is clear that policy makers will need to customize and experiment with policies rather than follow any rigid set of guidelines.' These remarks suggest that the '*Growth Report*' is on pretty much the same wavelength as Stiglitz's 'elements of the emerging consensus' and the 'Barcelona Development Agenda'.

The new emphasis on pragmatism, taking local conditions into account and 'experimentation' does *not* mean, traditionalists will be happy to hear, that the recommended development strategy is entirely devoid of guiding principles. The Commission found that the 13 high growth countries they studied had at least five things in common: each country fully exploited the world economy, maintained macroeconomic stability, mustered high rates of saving and investment, let markets allocate resources, and had committed, credible and capable governments.

The second recent development that has drawn attention to issues raised in *The Washington Consensus Reconsidered* – in particular, to the appropriate role of the state and government regulation in the economy – is the meltdown of financial markets in the second half of 2008 and the resulting threat of the worst worldwide economic downturn since the 1930s. Typical October headlines tell the story: 'The pendulum swings towards regulation', 'Undertakers deliver last rites for US capitalism', and 'A prophet reborn: Keynes' ideas for saving capitalism from itself look increasingly relevant' (*Financial Times*), 'The end of American capitalism?' (*Washington Post*), and 'Is the goose that laid the golden eggs severely wounded?' and 'Has the market economy failed?' (joint blog of Gary Becker and Richard Posner).<sup>3</sup>

The global governance dimension of the financial crisis is evident in the decision to hold a meeting of the G20 leaders in Washington on 15 November to discuss the crisis.

3 [http://www.becker-posner-blog.com/archives/2004/12/introduction\\_to\\_1.html](http://www.becker-posner-blog.com/archives/2004/12/introduction_to_1.html)

Despite talk of a ‘new Bretton Woods’ and a ‘new financial constitution’, the agreed agenda (as of early November) calls for a focus on reviewing progress on dealing with the current crisis and seeking agreement on principles of reform.

### **Will trade be the collateral damage?**

What is often lost in debates about the need to rebalance the respective roles of the free market and the state in economic life is the distinction between the liberalization of financial markets and the liberalization of markets for goods and services. The two markets are *very* different in terms of issues and – above all, as historical experience makes clear – in the frequency of periodic crises. We would all lose if the conclusion that liberalization and deregulation in the financial area went too far and needs to be reversed were to be extended unconsciously – or consciously because of a concurrent backlash against globalization – to the markets for goods and services in general and international trade in particular.<sup>4</sup>

RICHARD BLACKHURST, *The Fletcher School, Tufts University*

doi:10.1017/S1474745609004315

### **All Politics is Global**

by Daniel W. Drezner

*Princeton, NJ: Princeton University Press, 2007*

*All Politics is Global* is a more than just a welcome contribution to current international relations scholarship. Daniel Drezner confronts a growing literature on global governance that proclaims the death of state authority and the surge and dominance of private actors in world politics. He offers a ‘revisionist’ realist perspective on global regulatory regimes in times of growing interdependence. The book’s strength is the development of a simple and elegant theoretical argument for explaining regulatory regimes. Drezner blends realist and liberal thinking and argues that the outcomes can be explained by the interest constellation of great powers. He postulates that ‘great power concert is a necessary and sufficient condition for effective global governance’ (p. 5).

Drezner takes a fresh look at the role of the powerful states in governing the world economy. Using simple game-theory, he provides a convincing explanation for why the great powers (the US and the EU) have not lost their influential role. In doing so, the book makes a strong case against a growing literature in international relations that attributes a significant degree of agency to international organizations or transnational private actors in shaping international regulatory outcomes. The message is simple: it’s not the power of transnational firms, the campaigns of civil society groups, or the consensus of epistemic communities that matters, but the power of states as defined by their market size.

<sup>4</sup> Becker and Posner argue that the extent of the backlash against capitalism will depend on the depth and length of the current economic crisis.