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 chequered record**

It would be an exaggeration to claim that all the social and economic problems experienced by developing countries in the 1990s were due to the neoliberal economic policies implemented at the behest of the BWIs. Clearly, some of these problems existed long before neoliberal reforms were introduced; but the implementation of neoliberal reforms appears to have aggravated them. Not only has overall growth been lower, but the degree of inequality in the global economy has increased remarkably during the era of neoliberal restructuring.

Another disturbing feature of the neoliberal era involved pervasive state failure, with corruption in government emerging as a major area of concern. This observation is rather paradoxical in the sense that the whole spirit of neoliberal reforms under the BWIs was predicated on the notion of overcoming widespread rent-seeking and corruption which were diagnosed as natural by-products of excessive state intervention in the economy. Instead of this, the liberalisation process itself helped to undermine the effectiveness and legitimacy of state institutions, creating a vacuum and producing an environment within which corruption could take root and flourish. What is striking is that the problem has not been unique to individual countries or regions, but has manifested itself as a broad, systemic problem, evident in all parts of the developing world where the World Bank and IMF operated. These instances of state failure have not only undermined growth, but also had a markedly negative impact on income distribution, trust, social cohesion and ecological balance.

Some of the most drastic experiments in neoliberal reforms have ended in abject failure. There are enough examples to go around in Africa but take the case of Argentina. After a period of prolonged stagnation in the post-World War II period, Argentina embarked upon far-reaching neoliberal economic restructuring in the early 1990s. By adhering steadfastly to the convertibility plan and its institutional counterpart, the currency board, in line with the advice of the IMF, it had considerable success in the early years with reducing inflation and engineering a massive privatisation plan that helped to attract capital flows on a large scale. By the mid-1990s, Argentina was growing at unprecedented rates, and was singled out by the BWIs as a model case. But the kind of fragile, debt-led growth that Argentina was experiencing started to lose momentum in the second half of the 1990s and came to a total standstill following the economic meltdown in 2001, with grave and serious social consequences. Argentina is still reeling from the effects and conditionalities of the IMF bail out plan.

Another challenge to the Washington Consensus and BW orthodoxy has been the fact that a small number of countries that have achieved high rates of growth in recent years have deviated from neoliberal norms in certain critical respects. China and Vietnam, examples of hyper-growth, have successfully penetrated export markets on the basis of low wages and attracting large volumes of long-term FDI. Yet neither has conformed fully to neoliberal logic: selective infant industry protectionism and an active industrial policy have been key components of the policy packages in both cases. Malaysia is another example of rapid growth based on export-orientation and FDI. It has deviated from the Washington Consensus model in one critical respect, namely, through the imposition of controls over short-term capital flows. This non-orthodox instrument in many ways helped to insulate Malaysia from the vagaries of the 1997 Asian crisis which proved so costly for other countries in that region, such as Thailand and Indonesia. Countries that could avoid the Bretton Woods-fuelled crises could thus go on to experiment with heterodox instruments without being subject to the debilitating disciplines of the World Bank or the IMF.

**Towards a post-Washington Consensus?**

Both the World Bank and IMF have been trying to respond to the serious criticisms levelled at global neoliberalism, their own modus operandi, and the litany of failures of their adjustment programmes, especially in Africa. This has noticeably taken place in the realms of reform of the international financial architecture and through the process of poverty alleviation and reduction, such that one can talk of elements of a post-Washington Consensus. This rethink started first in the World Bank and later in the IMF. This is because, compared to the World Bank, the IMF tends to be more enclosed, opaque in its decision-making and less open to self-criticism. In the 1990s, the Bank showed a renewed interest in poverty and governance issues under its then president, James Wolfensohn. There was now an emphasis on the importance of institutions and the performance of the state as necessary ingredients of market-oriented reforms. There was also a recognition that persistent poverty could not be eliminated simply though expected trickle-down effects of improved efficiency and rising growth. Perhaps a key element of the post-Washington Consensus is the acknowledgement that states have an important role to play in the development process. While the Bank and IMF still favour liberalisation of the economy and greater reliance on the market, states and markets are now conceived of as complementing rather than substituting for each other.

The role of an activist state in fostering the development of markets is considered to be critical in a number of important respects in the post-Washington Consensus. There is a clear emphasis on the regulation of the financial system. Excessive risk-taking by under-capitalised banks, such as with the Asian crisis in 1997, can give rise to extreme economic turbulence and cause systemic shocks that are difficult to manage. Proper regulation of the financial system is important for mobilising capital and improving the allocation of investment. State support for education and health is considered critical in developing a human capital base, while the role for the state in infrastructure provision is also recognised. Another vital role for the state is in the development and transmission of technology. Finally, states can help promote equality and alleviate poverty and this has become the basis of the Poverty Reduction Strategy Programme (PRSP) process in Africa. This new logic of the post-Washington Consensus establishes an interesting symmetry by noting that states are important for the effective functioning of markets but also that markets or market-like mechanisms are important for the effective functioning of states.

**Shifting the deck-chairs**

Admittedly, the new synthesis embodied in the post-Washington Consensus represents some progress over earlier structuralist and neoliberal formulations by addressing key questions of how to simultaneously improve the performances of states and markets through their mutual interaction; and how to deal with problems of pervasive unemployment, inequality and poverty. But there are striking limitations. In the practical application of this new policy agenda by the BWIs, there is a systematic bias towards domestic reforms as opposed to systemic or global reforms. The problem, of course, is that self-interest and power relations have been at the centre of international economic relations since World War II. The hierarchy in economic and political power has been the key determinant of economic outcomes not only between developed and developing countries, but among developed countries themselves. The dominance of developed countries in the global economy is extensive, encompassing production, trade, finance, and technology; 90% of all patents originate in the developed countries of the OECD; and two-thirds of world trade is controlled by 500 mostly western-based transnational corporations.

In this hierarchy of power relations dominated by self-interest, the demands of developing countries for a more open and democratic international order have fallen on deaf ears or have been consistently ignored. A new governance architecture and reformed international economic system that is more conducive and attuned to development points to the need to democratise the BWI's as well as the WTO. There is a need to give them a more developing country orientation, and to establish effective international mechanisms for a structural reform agenda and for controlling short-term capital flows which are such a source of instability in developing countries.

One also has to question the sincerity of the BWIs about income distribution and poverty alleviation. The distinction between rhetoric and action is important. The World Bank and IMF have yet to identify those factors that lead to the marginalisation of whole regions and large sections of people within developing countries, which has denied them the benefits of globalisation. There is a tendency to ignore mounting evidence that links poverty alleviation with distributional issues, including ownership patterns. The IMF in particular continues to focus too much on short-term adjustment and regulatory reforms, and conditions relating directly to poverty and inequality are not incorporated in its stand-by programmes. For example, the IMF's obsession in Africa with the creation of a primary budget surplus and deficit management have interfered with social sector spending. This calls into question its sincerity on poverty alleviation and directly contradicts the World Bank-led but flawed PRSP process.

Then there is also the problem with the BWIs operational style and culture. Critics of the Bank and the Fund have inveighed against their style of governance, decision and policy-making. By convention, the IMF managing director is always European and the World Bank president an American. Recently, there have been significant leadership changes at both institutions. At the IMF Rodrigo de Rato has succeeded Horst Kohler and at the Bank, Paul Wolfowitz has succeeded James Wolfensohn. De Rato is less controversial, having been Spain's

Economy Minister and second Vice President but we know Wolfowitz's notoriety as the ideological and intellectual architect of the war in Iraq. While both institutions have a membership of 184 countries, a limited member executive board decides everyday policies. The executive boards operate under weighted voting systems that guarantee the voting power of major developed countries in terms of their contributions. In the IMF, for example, the US, Germany, France, Japan and the UK command more than 40% of the votes (that is five countries out of 184!). Because of this weighted voting system, these institutions have been viewed as tools of developed countries to the detriment of developing countries, but especially poorer members such as African countries. Hence, in terms of their basic structures and decision-making processes, the World Bank and IMF hardly conform to the stipulations of good governance. This has led to serious calls from developing countries that they should set an example by applying standards of transparency, accountability and participation to themselves. Whether de Rato and Wolfowitz will ring in these changes remains to be seen.

**SAPS and PRSPs—two sides of the same coin**

Since the 1980s, the most trenchant criticisms have of course focused on structural adjustment programmes (SAPs), where the two institutions reinforce each other through informal cross-conditionality. The Bank and the Fund thus exercise inordinate power in determining the trajectory of a country's adjustment regime through currency devaluation, fiscal reform, the removal of tariff and import quotas, price control liberalisation and so on. The implementation of SAPs—through the deliberate weakening of the state apparatus and the encouragement of rent-seeking—has contributed to corruption, further impoverishment, economic downturn, social dislocation and the depoliticisation of society. The Bank and IMF now find themselves in a paradoxical situation of trying to repair the damage which they themselves have caused in many cases or at least have heavily contributed to. The World Bank, which is the more developmental of the two institutions needs to explain why it was silent on issues of poverty in the 1980s, when neoliberal adjustment policies were wreaking such havoc in African economies and societies. Even after the emergence of PRSPs and poverty alleviation as a major objective during the past decade, the record of the Bank and IMF in this area have done little to close the credibility gap. The same applies when it comes to assisting the poorest of the poor countries in implementing the Millennium Development Goals (MDGs).

As long as the commitment of the institutions to poverty alleviation is in doubt, the impression will persist that they have used this issue to both cope with the increased but valid criticism that neoliberal reforms have attracted but also to broaden and deepen these reforms. Needless to say both the IMF and World Bank suffer from a universal erosion of confidence at the same time that there has also been an erosion of self-reliance, institution-building and domestic problem-solving ability in the countries where they are active.

**Power and reform**

All these considerations point to a deeper, more fundamental problem: namely, the inability or unwillingness to address major issues pertaining to power and its distribution both at the domestic and international levels. The post-Washington Consensus represents a response by the dominant establishment, led by the US , to the deficiencies of the neoliberal agenda and an attempt to overcome such deficiencies through a set of reforms that take the existing structures of power as a given. In the long-run, such reforms represent a partial and insufficient response by the BWIs (which is after all the institutional embodiment of the Washington Consensus in its different guises). This is because of the scale and depth of the problems relating to increasing unemployment, poverty and inequality at the global level.

Reform of international financial institutions is therefore seen as key in building a new architecture for improving accountability and governance and for improving the plight of the world's poor and impoverished. This would entail better representation of developing countries on the executive boards of the Bank and Fund; enhancing their capacity to make appropriate interventions in the MDG process; promoting private sector growth through improved investment and better concessional lending; improving approaches to sovereign debt restructuring in light of the Gleneagles initiative to debt write offs; and giving the advisory group of developing countries, the G24 (of which SA is a member), a more prominent role in determining the Bank and Fund's policies towards developing countries.

**Conclusion**

Developing countries such as India, Brazil, China, Nigeria, South Africa and Malaysia, should promote a paradigm shift in the global economic governance discourse by addressing the following five issues:

- There is a critical need for institutional reforms of the BWIs that would make possible greater openness, public accountability and improved participation by developing countries in the decision-making of the Bank and Fund.

- Crucially in this regard and secondly, the rules and practices for the appointment of the Managing Director of the IMF and the President of the World Bank should also be changed and these positions should be open to any candidate, regardless of national origin. This would help to overcome the legitimacy crises of the institutions.
- There is also a need, thirdly, for scaling back the financing, operations, role and powers of the Bank and Fund and rechannelling their vast financial resources into a variety of development assistance initiatives that are specifically targeted at the implementation of the MDGs, debt cancellation and increased finance and aid for low income countries, but especially those in Africa.
- Fourthly, this will require institutional changes in the economic policy reform instruments of the Bank and Fund that will support more equitable, sustainable and participatory development and which addresses the root causes of poverty.
- Finally, the role of the state must be recognised as an important provider of social welfare and public goods and not only for managing regulatory, fiscal and taxation arrangements. In this regard the principles of subsidiarity, democratic participation and public ownership of policies are equally important: individual citizens, families, businesses, unions, civic organisations, government agencies, parliaments, regional and other international bodies all have a role to play in development processes.

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**Suggested reading & websites:**

1. Walden Bello, *Deglobalization: Ideas for a new world economy,* London and New York: Zed Books, 2004

2. Richard Pleet, *Unholy Trinity: The IMF, World Bank and WTO,* Johannesburg: Wits University Press, 2003.

3. Susanne Soederberg, *The Politics of the New International Financial Architecture,* London and New York: Zed Books 2004

4. http://www.worldbank.org
5. http://www.imf.org