

# WASHINGTON, BRUSSELS, AND BEIJING CONSENSUS

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## ABSTRACT

In the new world financial, economic and nowadays debt crisis, the role of international organizations is in focus again. The financial crisis opens the way for IMF credits and for thinking in the European Union. After the second millenary, a scientific dispute started about the credibility of the Washington Consensus in many parts of the world. A new school emerged around Bruno S. Sergi, Roberto Tamborini, and William T. Bagatelas, who has been speaking about a transition from Washington consensus towards Brussels consensus in the case of Eastern European countries. Sergi carefully and precisely calls for specific and active state directed policy that puts economic transition in Europe in a new dimension. By Bagatelas, specifically, under the EU dimension, development under the new "Brussels Consensus" consists of activist state policies based upon assumptions given the world by Keynes, Schumpeter and supply side beliefs. Empirical studies also proved this structural break in macroeconomic policy. Now, the debate on appropriate economic policy is very active again. As in times of recession, Keynes and Keynesian economics has become popular, but the role of the state (and the international organizations) is sorely ambiguous. Our paper is to compare the Washington and the Brussels consensus from a heterodox point of view, and to find the differences of the two conceptions. Finally, we sketch the controversial concept of Beijing Consensus.

## 1. INTRODUCTION

When Williamson first mentioned the so-called 'Washington consensus', he could not think this concept launch a branch of articles with different consensuses and an important debate will start about the existence of them. During Eastern European transition, at the moment of the inauguration of the euro, and since the breakout of the current credit crisis, some concepts are highlighted. From Washington through Brussels and Frankfurt to Beijing, a series of centers of the economic policy stands for consensuses.

## 2. THE THREE FAMOUS CONSENSUS

### 2.1. The Washington Consensus

The Washington Consensus (WC) was first mentioned by John Williamson (1989) to describe a set of ten specific economic policy prescriptions for developing world. It acquires the 'one size fits all' rule of the International Monetary Fund of those ages. Serra et al (2008) retrospect WC as a consensus for liberalization and globalization rather than a consensus for equitable growth and sustainable development.

The consensus as originally stated by Williamson included ten broad sets of relatively specific policy recommendations. However, the literature (including Williamson's later work) quotes Williamson's original paper in many ways (see Birdsall et al, 2010, Williamson, 1989, Williamson, 1993, Williamson, 2008). Here, we list the original headings of the Williamson speech, with his later explanations and re-explanations.

1. **Fiscal deficits – fiscal policy discipline**, with avoidance of large fiscal deficits relative to GDP (Budget deficits – properly measured to include local governments, state enterprises, and the central bank – should be small enough to be financed without recourse to the inflation tax.);

2. **Public Expenditure Priorities – redirection of public spending** from subsidies toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment (Public spending should move away from politically popular but economically unwarranted projects (bloated bureaucracies, indiscriminate subsidies, white elephants) and towards neglected fields with high economic returns and the potential to improve income distribution (primary health and education, infrastructure);
3. **Tax reform**, broadening the tax base and adopting moderate marginal tax rates (To improve incentives and horizontal equity, the tax base should be broad and marginal tax rates moderate. Taxing interest on assets held abroad (flight capital) should become a priority in the medium term.);
4. **Interest rates dictated by market forces – Positive Real Interest Rates** (Ultimately, interest rates should be market determined. As this could be destabilizing in an environment of weak confidence, policy should have more modest objectives for the transition, mainly to abolish preferential interest rates for privileged borrowers and achieve a moderately positive real interest rate.);
5. **Competitive exchange rates** (Countries need a unified (at least for trade transactions) exchange rate set at a level sufficiently competitive to induce a rapid growth in non-traditional exports, and managed so as to assure exporters that this competitiveness will be maintained in the future.);
6. **Trade liberalization**: liberalization of imports, with particular emphasis on elimination of tariffs (Quantitative trade restrictions should be replaced by tariffs, and these should be progressively reduced until a uniform low tariff in the range of 10 percent is achieved.);
7. Liberalization of inward **foreign direct investment** (Barriers impeding foreign direct investment and the entry of foreign firms should be abolished; foreign and domestic firms should be allowed to compete on equal terms.);
8. **Privatization** of state enterprises (State enterprises should be privatized);
9. **Deregulation**: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions (Governments should abolish regulations that impede the entry of new firms or restrict competition, and ensure that all regulations are justified by such criteria as safety, environmental protection, or prudential supervision of financial institutions.);
10. **Legal security for property rights** (The legal system should provide secure property rights without excessive costs, and make these available to the informal sector.).

In a book edited with Pedro-Pablo Kuczynski in 2003, Williamson laid out an expanded reform agenda, emphasizing crisis-proofing of economies, "second-generation" reforms, and policies addressing inequality and social issues. Dani Rodrik (2006) refers this list as 'augmented Washington Consensus'.

1. Corporate governance
2. Anti-corruption
3. Flexible labor markets
4. WTO agreements
5. Financial codes and standards
6. Prudent capital-account opening

7. Non-intermediate exchange rate regimes
8. Independent central banks/inflation targeting
9. Social safety nets
10. Targeted poverty reduction

Kanbur (2008) emphasizes that challenges to the consensus emerged in the moment when it was formulated. By the end of the 1990's, more and more critical papers were published about the WC. Clift (2003) thinks beyond the Consensus with heavy sarcasm towards Williamson's Washington Consensus II. The status of the debate in 2005 is finely summarized by Gnos and Rochon (2005). The strong skepticism can be described well by the expression 'Washington Confusion', first appeared in 1999 (Naim, 1999) and rehashed by Rodrik (2006): "... nobody really believes in the Washington Consensus anymore. The question now is not whether the Washington Consensus is dead or alive; it is what will replace it." In his famous speech in 2009, Gordon Brown said "... the Washington Consensus is over".

In 2008, the consensus about the death of Washington Consensus was built, as Stiglitz (2008) or Estevadeordal-Taylor (2008) demonstrated. Moreover, Stiglitz thinks that the future of a uniform economic policy toolpack is dubious, as "... there is no... Post-Washington Consensus consensus".

## 2.2. The Brussels Consensus

Meanwhile in Brussels, the European Union, and distinguished the European Monetary Union (theoretically based on Mundell's theory on optimal currency areas) is built on the Washington Consensus. The common monetary policy of European Central Bank, and the theoretically independent fiscal policy restricted by the Maastricht treaty and the Stability and Growth Pact (SGP), the small and inflexible EU budget, and overall the often lack of coordination between monetary and fiscal policy, and between fiscal policy across countries (Farina-Ricciuti, 2007, Pisani-Ferry, 2010) conduce to the introduction of Brussels Consensus. As many publications (see Bagatelas, 2004, Tamborini, 2003, Irvin, 2005) suggest, instead of Latin-American and Eastern European countries, the main user of the Washington Consensus is the EU. Fitoussi and Saraceno (2004) dare to call it as 'Washington-Frankfurt-Brussels Consensus'. We finished our previous chapter with the consensus on the end of the Washington Consensus, but what about European Union? Is it also over?

The Brussels Consensus has some successes and failures in the pre-crisis period. We can see (De Grauwe, 2006, Farina-Ricciuti, 2007, Le Cacheux-Saraceno, 2007, Perry-Servén, 2008, Tamborini, 2002) that the monetary policy had a relatively good performance (stable and low inflation rate), but the growth and fiscal policy goals are not reached (Jones, 2007). Even the European Union is split; the euro zone members had much lower growth performance than non-euro zone union members (also before the first wave of accession of Eastern European countries). The rules of the European Monetary Union are also very soft. At the moment of the birth of euro, only 5 of 12 euro zone members fulfilled the government debt criterion, and the average government debt / GDP ratio was always over 70% (it should not exceed 60% in all countries).

## 2.3. The Beijing Consensus

Ramo (2004) argues that the success of China (and also other BRIC countries) contradicts every single principle formulated in the Washington Consensus. He forms 3 guidelines of this policy mix, under the name of Beijing Consensus (BC):

- Innovation and constant experimentation;

- Rejection of GDP growth above all in favor of sustainability and equality;
- Self-determination

The BC is formed, merely, around three ideas, which are in themselves less tangible and more subjective than those of the WC. (Turin, 2010) Although ambitious, the original conception of the BC is not up to the task of being a worthwhile competitor to the alternative model from which its name was coined, not because of the WC's apparent worthiness, but rather because the BC is a misguided and inaccurate summary of China's actual reform experience. (Kennedy, 2010)

To be more precise, in his January 2012 article in Williamson (2012) describes the Beijing Consensus as consisting of five points:

1. Incremental Reform (as opposed to a Big Bang approach),
2. Innovation and Experimentation,
3. Export Led Growth,
4. State Capitalism (as opposed to Socialist Planning or Free Market Capitalism).
5. Authoritarianism (as opposed to Democracy or Autocracy).

Li et al (2009b) argue that even though there are some problems in Ramo's original definition of Beijing Consensus, it should not be rejected altogether. In Li et al (2009b) 10 principles of the BC can be found as:

1. Localization of best practices borrowed
2. Combination of market and plan
3. Flexible means to a common end
4. Policy rights
5. Stable political environment
6. Self-reliance
7. Constantly upgrading industry
8. Indigenous innovation
9. Prudent financial liberalization
10. Economic growth for social harmony

Chinese government officials and academics themselves have embraced some of the main claims in the Beijing Consensus. In particular, they have embraced the idea that Chinese growth is driven by economic statism—that is, the state exerting extensive control over the economy—rather than by the vibrancy of the market and influential private entrepreneurship. (Huang, 2011) Leonard (2006) also argues that the concept of the Beijing Consensus is soft; one can find different interpretations and lists of its elements. Lee and Mathews (2008) try to widen the concept towards a Far East perspective, by defining the Beijing-Seoul-Tokyo Consensus:

#### ***A. Two Agents***

- Private Firms (PF) and Pilot Developmental Agency (G)

#### ***B. Processes for Capability Building (PF + G)***

- Arranging accesses for external knowledge
- Export-based engagement with global economy for disciplinary learning
- Targeting import-substituting technologies/sectors
- Sequential upgrading for dynamic comparative advantages

#### ***C. External Environment for Capacity building (G)***

- Generic human capital enhancement
- Catch-up friendly financial system

- Macroeconomic stability
- Phasing out of non-market interventions

In Kolodko's opinion (Kolodko, 2012), the economic development strategy shouldn't rely on "Beijing Consensus", nor the already compromised "Washington Consensus". It must be crafted from something in between. He offers a new pragmatism based on country's specific factors.

### 3. CONCLUSION

The European economic policy applied until the deepening of the current crisis leads to government debt in long term and results great growth losses for all Europe. The institutional frame of the EU – implemented along the Washington Consensus – seems to fail its macroeconomic goals, as generates low growth rates and growing government debt. In 2012, some positive changes (new pacts) started, but we cannot be sure how these paper tigers will be implemented. We do not think that a worldwide Beijing-type consensus would be the solution for the problems of the world economy, but shifting towards an economic view described in the measure of Gross National Happiness is not inconceivable. Since the break-away of European debt crisis, forces towards self-determination and economic (or political economic) individualism has been strengthened. Emphasizing sustainability and equality in times of no growth is not fair policy.

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