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The Washington Consensus and Pro-poor Economic and Social Policies

If it is accepted that economic growth that is pro-poor and pro-democracy in character has the maximum impact on poverty reduction, how can the global community play a role in supporting such growth? It can be argued that while the Washington Consensus (Annex D) that has guided international policy in supporting development has served well in shifting the stance of policy away from dirigiste regimes towards more market oriented-approaches, it needs to recognise that markets have to be complemented by non-market institutions if they are to work in a pro-poor direction. Unequal ownership of assets and access to credit or education and training put the poor at a disadvantage in participating in the market economy; therefore, if the poor are to gain from market-oriented reforms, non-market institutions – for example subsidised training or micro-credit institutions that do not insist on collateral – are needed to make markets work for the poor. Also, it is well known that markets under-perform in generating public goods such as a clean environment, basic education or health that carry huge externalities. The state or civil society will therefore have to assume a role in the production of such goods. While there is a recognition of this, some believe that in practice the Washington institutions rely on market solutions to a range of problems that can best be tackled by non-market processes and institutions.

Over all, the Washington Consensus needs to give place to a new paradigm that takes account of the above, and of the following:

- The interplay between political and economic forces, particularly in regard to the links between the quality of economic growth and democracy;
- The possibility that growth can be associated with a range of poverty outcomes;
- Poverty reduction is more than reduction of income poverty;
- Where countries are today affects where they can go; one size does not fit all;
- The importance of getting policy sequencing right;
- The need to create incentives for the social groups in power to accept change;
- A policy that makes sense when pursued by one country may not make sense when pursued by all – for example, the promotion of commodity exports through competitive devaluation (the so called 'fallacy of composition');
- The need for global governance to move in step with global developments;

The global community has already come a long way in moving towards the above positions. It is now accepted that, for example:

- Policies that support good governance, gender equality, education and health should receive high priority in international assistance for development;
- There should be greater awareness of the poverty implications of structural adjustment programmes; that poverty reduction strategy papers (PRSPs) should become a part of country assistance programmes;
- More attention should be paid to sequencing, including in regard to privatisation and liberalisation of the capital account.

The World Bank has pioneered Comprehensive Development Frameworks and, together with the IMF, it requires PRSPs in connection with debt forgiveness under the aegis of the Highly Indebted Poor Countries (HIPC) Initiative (see below). In 1999 the IMF established a Poverty Reduction and Growth Facility (PRGF) to replace the Enhanced Structural Adjustment Facility. While these are welcome developments which enable a greater focus on poverty focus, it can be argued that they need further attention and refinement. Some have called for greater public participation, more systematic incorporation of poverty and social impact assessments, greater emphasis on protecting the share of expenditure going to social sectors such as education and health, flexibility in meeting targets in the light of exogenous events and longer-term finance commitment to make these programmes more effective.

In the context of poverty reduction, it can also be argued that global action falls short of what is needed in several other areas. These include:

- Trade liberalisation;
- Aid and debt;
- Reform of the international financial architecture;
- New technologies;
- Pro-poor health policies;
- Pro-poor education policies;
- Reform of global governance.

We discuss these issues in the sections that follow.