

Why has the Washington Consensus not Expanded to Cover Middle East Countries

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Why Has the Washington Consensus Not Expanded to Cover Middle East Countries: An Example of How the Political Modernity Failed over the Economic Discourse

Introduction

In many ways the Washington Consensus (WC)[1] is the image of Western free market economics. In 1989 John Williamson, an economist from the World Bank, set the standard for a new economic era in the paper called *What Washington means by Policy Reform*" (Williamson, 1990; 2005: 195-197). Ten economic policies were drawn up as the basic core ideas that developing countries should apply. These were designed by Western nations in 1990 and rapidly applied to most of the world. The notable exception, however, is the Middle East (Williamson, 1999).

At first glance this might appear to be the result of religious differences. The West is, after all, predominately Christian while the Arab world is, of course, largely Islamic. The main barrier of the WC was its narrow political discourse that turned into an imposition and thus did not work as expected by the Western nations. An examination of the relevant economic policies of both regions shows this is far too simplistic. Western and Islamic economics may differ in some areas but they are united in far more ways than they are divided. Through the lens of a political discourse these two main theoretical frameworks are different. As a result of that logic the WC could not be applied to the Middle East.

This paper compares Modern and Islamic economics. It will demonstrate how religion has a strong impact on social sciences, especially on economics and through this approach, different political discourse can be constructed. The importance of the WC as a symbol of modernity addresses the question on how its discourse was rejected by other identities, especially in the Middle East. Finally, the conclusions will be discussed in relation to the previous sections.

Distinguished Differences Affected the WC and IE?

The policies with regards to the WC and its representation as a symbol of Modernity have been the main argument contested through the years. Williamson did not account for the political impact of the use of the term "Washington Consensus" (Williamson, 2002). He claimed that the policies provided were guidelines of what governments should do (with the consensus of international institutions from the West) if economic development was desired. It was not until Luiz Carlos Bresser Pereira, a Brazilian economist, explained the importance of WC and its effect on the public domain that according to Bresser Pereira: "the concept had become the property of mankind" (Williamson, 2000). With that in consideration many Western policy makers took that idea and use it to promote a political discourse of modernity.

The Policies of the Washington Consensus

After the "lost decade of the 80's", Latin America was an unstable region. Many countries were suffering from economic crises, due to the misuse of fiscal policies and lack of governance. International institutions were expected

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to provide guidelines and help these countries reach a more stable situation. The decade of the 90's started and many countries tried to apply a basic framework to achieve stability. In that period, John Williamson promoted a series of policies that Latin America (and the rest of the world) *should* apply if they were to become more secure states. In his paper "*What Washington means by Policy Reform*", Williamson established ten basic rules in order to build their way to a developed world. (Williamson, 1990; 2005: 195-197)

The policies were:

1. Fiscal policy discipline, with avoidance of large fiscal deficits relative to Gross Domestic Product.
2. Redirection of public spending from subsidies like primary education, primary health care and infrastructure investment.
3. Tax reform.
4. Interest rates that are market determined.
5. Competitive exchange rates.
6. Trade liberalization: no protective barrier for imports or exports.
7. Liberalization of foreign direct investment.
8. Privatization of state enterprises.
9. Deregulation: abolition of regulations that impede market entry or restrict competition.
10. Legal security for property rights.

John Williamson established these recommendations as guidelines to follow. As he claimed:

"They are economic policy instruments that I perceive 'Washington' to think important, as well as on which some consensus exists. It is generally assumed, at least in technocratic Washington, that the standard economic objectives of growth, low inflation, a viable balance of payments, and an equitable income distribution should determine the disposition of such policy instruments." (Williamson, 1990)

In the era of globalization, these policies became the main discourse during the decade of the 90's. International institutions like the World Bank (WB) and International Monetary Fund (IMF) did not expect other policies to be applied. This discourse was an institutional representation of the West. As Naim mentioned, this consensus was ill suited and became a temporary suit to encapsulate all other kinds of frameworks. The main result from that encapsulation was the detaching the realm of identity from the politics and economics. This became the "recipe" to live the everyday life. (Naim, 2000: 90)

Under this expression many social groups in countries enforced resistance under this "Washington Imposition". This is why the WC was seen as a failure; according to Kolodko (1998: 1-2), the WC was the simple idea of liberalizing as much as you can, privatizing as fast as you can, and be tough in monetary and fiscal matters. The lack of incorporating major complexities as cultural values and identity became the main critique. This reflected how coercive power was being used, conditioning aid in favour of these policies (Krishna, 2009: 47-49). Indeed the criteria of imposition by Western entities became a source of resistance. In the end, the imposition of a discourse of the West was claimed. This was also echoed in Shahid Alam's claim: "This new imperialism, codified in the 'Washington Consensus'." (Shahid Alam, 1999: 20-22)

Preserving Identity: Islamic Economics

Islamic Economics sustained itself as an important aspect of Muslim Society due to a powerful religious background. This was a key element and a main pillar for the construction of their political identity. As a result of this, the rejection of the Western modernity showed how strong their cultural background was. To understand how the economic dimension of Muslim society works, it is important to describe the principles of Islamic Economics. For that purpose the work of Sayyid Abul'ala Mawadud: "*First Principles of Islamic Economics*" (Abul A'la Mawadud, 2011: 83 – 86), will be useful:

1. Every individual is free to use natural resources.

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2. Everyone must be able to seek his livelihood unhindered in a lawful manner.
 3. Proprietary rights are lawful, acquired through work.
 4. Islam seeks a healthy competition, but rejects any competition that is forced or that its intention is to benefit someone.
 5. Islam favours the equality by nature, but prohibits all artificial ways to achieve that.
 6. Allowing freedom of opportunity for every individual.
 7. Islam has made it imperative for the society to take care of the community.
 8. Islam has similarly prescribed certain obligations that the society owes towards individuals.
- Firstly, it seeks the society to create conditions that may allow every individual member to enjoy equal rights.
 - Secondly, Islam would like the society to ensure necessary treatment and assistance in emergencies and natural calamities.
 - Thirdly, Islam seeks to encourage the society to be sympathetic and not apathetic toward its members, who may be temporarily out of job or incapable of earning their living.

If a comparison is made between the WC policies, based on modern economics, and Islamic Economics, one main difference arises: Where the responsibility to the community is concerned, there is no space for an individualistic perspective, like in Modern Economics. This principle is called Zakah. The virtuosity of this idea is based on the redistribution system of the culture, which states that everybody should have a chance to use the resources provided by the earth. (Abul A`la Mawadud, 2011: 98)

It cannot be denied that Islamic Economics have similarities to Modern Economics, in terms of promoting competition, state regulation[2], and pursuit of economic progress through labour and the efficient use of resources. Unfortunately the political perception of Islam, which also mean the Middle East specifically by the West, is a region that only provides natural resources and does not allow margin for political plans that can match economics – identity – religion with one single purpose. The main argument that arises here is that, why, if Modern Economic achieves the progress to God’s aim, should Islam be denied of that right?

Identity, Economics and/or Religion?

How does Islamic Economics relate to the discussion regarding the Washington Consensus? To build this relationship, it is important to note that there was never a conceived plan of economic policies for the Middle East. The perfect political expression of this idea was the “Policy of Containment” applied by the U.S. in the Middle East, especially in Iraq (Ricks, 2007: 4, 12-17). However, that would be a very easy way to explain the causes of why there was no plan aiming to develop the Middle East. If economic liberalism meant expansion, it needed to be in countries that had a weak identity. Latin America, in that case, presented those conditions. Why was the Middle East able to resist the implementation or imposition of a plan like the WC? The answer to this would be Islamic Economics.

Is Economics a Religion?

The West considers the rule of Sharia as a barrier to modernity. (Halliday, 2003: 72-75) Here economics should be separated from religion or any kind of cultural practice. The domain of numbers, models, covering law model should lead to universal logic and an undeniable truth. The basic foundations of economics are religious, because Modern Economics are based on the Reformation. It is difficult to implement a plan like the WC on countries in the Middle East where the cultural resemble is Islam.

This idea of religion and economics is described perfectly by Nelson:

“In that case, social science and Christian religion would be complementary. In actual fact, however, the two have often been in conflict. This seems to reflect two factors. First, in the past, Christians have frequently been anxious that some of the knowledge of history and society revealed by the application of social science methods might be in conflict with essential elements of their own received Christian traditions, and thus they have sometimes been

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antagonistic to the very undertaking of science. Second, in economic religion, human agency plays a large role in the salvation of the world. God might have actually intended that heaven on earth will be reached by a route of economic progress guided by human action.” (Nelson, 2006: 667)

Therefore religion and economics converge up to a point. Nelson understands that economic progress is maximising the personal utility. The personal aim of success using the best possible resources becomes not only a statement in economics, but also a religious belief that should be pursued. To reinforce this assumption, Rothbard shows how Jean Calvin becomes an important actor in developing the idea of achieving progress through God’s will. He asserts the main idea of Calvin; work is the main tool (as a divine approval) that is useful for succeeding in God will[3]. (Rothbard, 1995: 142-143)

If there was always a cost in life for every action that is performed to achieve God’s will, the concept of usury is perfectly plausible under this scheme. (Rothbard, 1995: 144) There is a cost of focusing your resources (time and work, which are scarce) on other objectives different from your personal goals. According to Calvin, this became the fundamentals for the creation of the interest rate. It is important to acknowledge the individualistic character of Calvin’s ideas. In contrast with Islamic Economics, the return of part of the wealth created to the community becomes a fundamental. Due to this individual perspective, Adam Smith based his reasoning to propose his argument of the “invisible hand” as a self-regulator of the private desires of every individual which will result in a common good to society (Smith, 1977: 593). As he refers to it:

“By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. ” (Smith, 1977: 593- 594)

The evolution of knowledge (in economics) has been transmitted through social scheme, one of them represented by religion. What we understand as Modern Economics is a reflection of religious inquiry to find a way through God. The ideas of Calvin and Smith are transmitted through the WC, in this sense; Modern Economics are a continuation of religion[4]. (Ekelund and Hébert, 2010: 430; Salvatore, 2009: 26-27) It is worthwhile to ask, if it was not possible to implement a plan like the WC in Middle East countries, why then in Southeast Asian countries did the WC policies work? In the latter, the effectiveness of the plan resulted because they imported labour from other countries that were not Muslims[5]. (Mohd Noor et al, 2011: 176; USBA, 2002)

This last argument questions how strong the Muslim identity is; and if the predominance of a Muslim population would make it difficult to go ahead with a liberalizing plan like the WC. What other alternative had the Middle East to strive in this Free Market Economic ruling? They had a deep cultural response to that kind of plan: Islamic Economics.

The Failure of the Discourse or the Failure of Modernity?

The analysis of the the success or failure of the WC could be expressed using the phrase made by Zhou Enlai: “It is too early to say”[6]. In this case, does this mean that Modernity has failed?As stated in paragraphs above, there is an appropriation of the WC by policy makers transforming itself in a political discourse. The technical theory behind it was left out, and it became a political fight. Many countries felt that there was no consensus, only imposition. (Stewart, 1997: 64) This discourse had the main objective to accept these economic policies as undeniable truths, as George Soros had expressed it: the WC became a discourse that expresses “market fundamentalism.” (Soros, 1998: xx) Williamson recognizes that the term “Washington Consensus” has come to be used to describe an extreme and dogmatic commitment to the belief that markets can handle everything. (Williamson, 2000; Krishna, 2009: 51)

Does that mean the WC failed? The answer must be both yes and no. It is important to make two distinctions here. One is the political discourse; the other is the economic policy. In terms of the latter, the WC has shown mixed results. Excellent cases like East Asia where, with the support of the State, economic resources had been efficiently

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allocated (Williamson, 2000; Nelson and Pack, 1998). It is not like the case in Latin America, where the results are uneven – some countries had shown interesting progress, like Brazil, Chile, Colombia and Peru; while Argentina, Bolivia and Ecuador have shown instability during the process (Stiglitz 1999: 34).

In terms of the political discourse, the main reason for the rejection of the Washington Consensus was due to the political image (from both sides) as an imposition from the great powers. The rejection of this speech has created the image of resistance. In this case, backlash of the political discourse had an important implication on how modernity was being perceived and cultural domination of the principle of free market as a way of living and was more important, “without” discussion (Said, 1979:325-326; Krishna, 2009: 61).

Conclusions[7]

Contrary to the perception of the Middle East, the Economic Principles applied in Muslim society have similarities with (Western) Modern Economics. It cannot be denied that religion and cultural background are important elements in the formation of knowledge of this social science but also it has become a main schism, creating two perceptions: Islamic Economic, a traditional perspective; and Modern Economics, innovative perspective. (Maloney et al., 2010: 445)

A good example of this schism was the imposition made by the West through the policies of the WC. This discourse became a relevant political actor to impose Western Modernity in developing countries. The imposition and mandate character of the political discourse generated many critics. As a consequence of this perception, a negative impact was produced in third world countries, creating “Anti – discourse” of anything that resembles “Washington” or similar economic policies (Broad and Cavanagh, 1999:87). It is important to consider the reformulation of a new consensus that will engage the aspects of cultural values that would emphasize the identity of a community.

After this analysis it is important to look forward into the future of how to promote policies in accordance with the political discourse. The challenge of Islamic Economics must be to demonstrate to the Western world how the knowledge behind their principles and set of values can be an added value to society. If policy makers are not willing to understand this, political barrier will always be undermining factor to development and progress. As Adam Smith expressed: “No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.” It is time to learn from the failures, if not the world will be condemned to be poor and miserable.

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[1] To ease the discussion, Williamson (1990) named his policies the “Washington Consensus”: “It is hoped that the country studies to be guided by this background paper will comment on the extent to which the Washington consensus is shared in the country in question, as well as on the extent to which that consensus has been implemented and the results of its implementation.”

[2] Abul’la Mawadud (2011: 26) shows two main distinctions in how the State (or society) regulates the action of economic agents: a lawful action, ‘Halal’; or a forbidden action ‘Haram’.

[3] As Rothbard (1995: 143-144) also described, Calvin was against the Aristotelian – Thomist position which embraced a kind of hedonism, which could relax the criteria of responsibility and most important opportunity cost.

[4] Ekelund (2010: 430) shows how economics developed on particular doctrines or episodes of church history.

[5] It is important to state in comparison to Southeast Asian countries that have liberalized their economies, even though two of the four countries (Malaysia and Indonesia) have predominantly Muslim population (Malaysia: 60.4%, Indonesia: 86.1%). As stated by Mohd Noor, Isa Rusmawati And Jalil the dependency for foreign labour in Southeast Asian countries is still an important matter. (Mohd Noor et al, 2011: 176) Through liberal policies the importation of labour force from Thailand, India and China, not Muslims practitioners, is what sustains their economy and the liberalizing scheme. This has created a problem of illegals and informality. Malaysia has to promote laws of amnesty to illegal workers so they are allowed to still be part of the labour force. (Bloomberg, 2011)

[6] In a meeting with President Richard Nixon, he asked Zhou Enlai about his perception about the French Revolution and its results in a historical context; Zhou Enlai answered very simply: “It is too early to say”. (BBC News, 2003)

[7] The essay has tried to bring into discussion an example of how political and preconception impact in a discourse. In terms of this analysis it would be suggested, as a continuation, to promote a further comparison of two countries (one applying Islamic Economics, and other Modern Economics), this would require a much thorough comparative analysis of socioeconomic, cultural conditions and economic performance.

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