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World Trade Order and the Beginning of the Decline of the Washington Consensus

It is fair to say the Washington Consensus evinces some signals of decay, a very early state of fragmentation, a fraying of its force at the edges without any significant challenge to its core principles, at least among opinion leaders and policy makers in the United States. Both major political parties support the consensus wholeheartedly. With rare exceptions, such as the former chief economist of the World Bank, Joseph Stiglitz, all those with access to the media and opinion formation look upon dissenters as strayers from the fold of free trade, closet protectionists at best, and at worst proponents of a return to some dreaded world that is characterized as revanchist, reactionary, and that most damning epithet of all: populist. Nevertheless, we can mark the century's turning as the beginning of the decline of the Washington Consensus.

What Is the Washington Consensus?

How does the Washington Consensus differ from a more general deference to markets in an economy that predates this 1990s phrase? It differs in three ways. First, it appears at the end of the Cold War and carries with it a sense of triumphalism that adds a dimension of hubris – a celebratory lap around the track after a victory in the marathon that lends an air of ideological certainty to what had previously been one of assurance but tempered by restraint.

Coupled with the apogee of globalization that had started some two decades before, the Washington Consensus secondly extended the affirmation of markets beyond the economy to a wider range of society's activities, heretofore subject to economic as well as other forces, and to all societies, those in transition from central planning and to those in transition from etatist modes of economic organization. Markets became not just one of several instruments to achieve economic and social objectives but the only instrument. They became transcendent, over-riding boundaries established by the political process, answerable neither to a public through the political process nor to civil society. Markets set the rules and enforced them, as if a football match was played by the rules established by the players and the referees answered to the players not to an independent authority. It is this transcendence of markets, its application beyond what had previously been defined as the limits of its jurisdiction to non-economic aspects of society, and the absence of a »neutral« refereeing process that separates the 1990s version of markets from its predecessors.

Thirdly, the place where this appeared most aggressively, and in a form that can be described as bordering on revolutionary, was in the international economy of trade, investment, and finance. Here markets began to tear down what had been defined borders, regulated by states in a blend of market and political forces. The free trade argument directly and concretely challenged the sovereignty of countries, their authority to regulate borders, evoking a confrontation between nation states and markets, where the market position was represented by the Washington Consensus. It is not surprising, therefore, that the manifest clash between the Washington Consensus and its doubters has occurred in the World Trade Organization (WTO), precisely in this arena where a new globalization has organized the world economy around markets and by extension imposed that organization inside countries.

The newly framed argument of »free trade« – which differed from the way this term had been used since the first quarter of the nineteenth century – was used to pry loose from a blended regulation of markets and governments not only the movement of goods and services, but capital movements, intangible intellectual property such as patents and trademarks, and the movement of money and finance. Encouraged by technological transformations in information systems, communications and transport, the carrying capacity of an open and publicly unregulated global economy was offered as a solution to virtually every economic and social problem that existed and in virtually every type of economy, those in transition, newly industrializing economies, the poorest or the poor, as well as the most advanced industrial economies.

The Washington Consensus comprised all of these dimensions: a post-cold war organizing principal, its transcendent and exclusive reach into nearly all dimensions of economy and society, and its application in an open global economy to carry all the weight of economic reform and vitality.

The Washington Consensus is under stress not because of the legitimate brief that can be made for free trade and the globalization process that underwrites the entire set of ideas behind it. A large measure of the problem in the debate over free trade as presently conceived derives from the particular connotation given to the word »free«, a specific meaning that goes beyond its original 19th century usage and that was in vogue throughout most of the 20th century. The debate suffers from a paucity of language. If one is not a free trader, you must be a protectionist. Not so. There are numerous shadings in between these polar positions in which supporters of trade legitimately reside. It would be useful if we could get beyond a rigid terminology that inhibits rather than stimulates debate. Perhaps the term »open trade« is a more effective phrase that could rally disparate sides in the discourse.

Globalization and the Washington Consensus

Much the same applies to globalization. Genuine discourse lies not in defending an extreme position, for or against globalization, but in working out the numerous and complex arrangements that govern such a far-reaching institutional transformation. The Washington Consensus, as a representative of globalization and open trade, likewise has considerable merits. One only has to live in an economy that has not become part of the international system to realize how limiting that arrangement can be. The problem lies in the added evangelical and missionary dimension that surrounds much of the Washington Consensus advocacy, a new secular orthodoxy which deflects attention from the merits and demerits of its case.

The Washington Consensus became controversial because it confronted the mid-20th century social contract in the advanced industrial countries and challenged autonomous paths to development in the Third World. This challenge was in part a set of conscious decisions but also was motivated by the technological and institutional changes that fall under the rubric of globalization. The extent to which it was independently driven by a new political ideology and the extent to which it responded to technological and institutional transformations can be legitimately debated. The response by the political process to globalization, however, could have taken many turns and was not predetermined.

Not only does globalization confront the mid-20th century social contract and autonomous paths to development, but it erodes the importance of the nation state, thereby taking on national systems of social organization and national culture. In this way it is a revolutionary process that evokes, understandably, sharp resistance. There is a tension between the unbounded global reach of markets and the bounded territorial jurisdiction of nation states. The new globalization in every way punctures the bounded space of the nation state and sets up a conflict over sovereignty. It establishes an alternative source of reference to that of the national governing political process.[1] The Washington Consensus lent political muscle to market challenges to the nation state through international financial institutions – the World Bank and IMF – and, most important of all, through the newly inaugurated World Trade Organization in the mid-1990s. It ratified events on the ground that had been forged out of institutional, structural, and technological transformative forces of the past quarter century.

The imagery that had been erected in the half millennium since the advent of the nation state was

1. See Howard M. Wachtel, *The Money Mandarins. The Making of a New Supranational Economic Order,* revised edition (Armonk, N.Y.: M. E. Sharpe Publishers, 1990).

one of verticality, a series of vertical borders that figuratively separated one country from another. The essence of globalization is a set of horizontal functional intrusions that cut swaths through borders. First financial markets penetrated »vertical« borders, then increased trade fostered by a radical reduction in transportation costs, then foreign investment. Outside of the economic realm, culture was next, environmental and ecological overlaps, crime, the movement of larger numbers of people through legal and illegal immigration, information and telecommunications. In each of these realms the assault on national borders was nothing new. As Fernand Braudel and the »Annales« school argues all of this had been going on since the beginning of history. But what was new was the scale, the scope, the rapidity of movement, the shrinkage of time and space. It is as if a block of Swiss cheese stood in for the nation state and small holes previously had permeated its mass. The functional incursion of globalization makes the holes ever larger so that at the end they are much larger than the mass, threatening the stability and structural soundness of the mass itself. When that happens a threat of collapse and implosion is imminent. This is the fear that motivated an ill-formed language of dissent, one that tried to find a voice for saying: »Enough, a pause is needed to take stock of where we are and what can be done to absorb and assimilate change.«

Antecedents

The Washington Consensus predates the 1990s but emerges at that time with a clear and concise agenda. Its roots go back to the 1980s and the movements for deregulation and privatization, and earlier to the 1970s with the breakdown of the Bretton Woods system and its replacement by freely floating exchange rates and unregulated international financial markets. Applied to the Third World, the foreshadowing of structural adjustment can be found as early as the late-1970s experimentation by the IMF with conditional lending to cover emerging Third World debts.

The trajectory of the development of a clearly defined position such as the Washington Consensus follows other long waves in the development of ideas that shape epochs. Looking back historically, there are long cycles in the development of ideas that typically lag technological and structural changes by perhaps as much as a quarter century. Technological and organization changes that emerged in the second half of the nineteenth century, for example, only found their ideological construction at the turn of the century. Economies became dominated by large-scale enterprises – trusts in the United States and cartels in Europe – that organized capital markets on a national basis, from border to border. It took about a half century, in roughly 25-year intervals, for the evolution of the 20th century's economic and social theory to be framed and subsequently challenged. The period of the 1920s and 1930s produced sharp debates as between socialists of all shadings, reformers, and defenders of the existing systems. This period began to produce the development of the social contract that accommodated and absorbed the fin de siecle's transformations, attaining its apogee from around 1950 to 1975. After 1975 the social contract of the mid-20th century began to atrophy in the face of a challenge from a new set of organizing principles and ideas following on a globalization that began about that time. Capital markets extended beyond borders and became organized on a global stage. We are now witnessing another evolution of ideas. Presently they are in the earliest phase of challenge and response.

The origins of globalization can be dated from 1971–1973 with the breakdown of the post-World War II Bretton Woods system and its replacement by free markets in exchange rates and international finance. Following on this, privatization and deregulation became a second tranche in the challenge to the mid-20th century consensus. This produced a broader assault on etatism and was affirmed by the collapse of its most extreme form of central planning and the end of the Cold War. By the 1990s all of this could be cobbled together into what became known as the Washington Consensus and applied universally within countries and across nations. At its apogee at the end of about a quarter century, these ideas appeared to be impregnable just at the time when they had reached their crest and were open to debate. It was precisely at this juncture when the Washington Consensus was formed that it actually began to peak. At its zenith is when it became open to challenges. However, its proponents mis-read the text and moved even more aggressively to assert its transcendence. This is where the Consensus began to run into trouble.

Fault Lines and Fractures in the Consensus

The first fracture in the Consensus occurred in 1998 when the Multilateral Agreement on Investment (MAI) was defeated. This was a reach far beyond previous governing structures implanted to support globalization. It was launched some years earlier within the OECD when the euphoria of the end of the Cold War, the completion of the WTO agreement, and the infatuation with the new technologies of globalization appeared to be unbreachable. By 1998, however, conditions had changed. The MAI called for significant new intrusions into national sovereignty. It bound signatories to eliminate national laws that interfered with foreign investments, whether they be environmental, health and safety, labor, or whatever. This is consistent with the view that the unique attribute of globalization is its challenge to the sovereignty of the nation state and not merely greater quantitative movements of people, goods and services, and information as it is conventionally presented. With the proposed MAI the challenge became clearly identified, sharply delineated, and evocative of a spontaneous response that was able to penetrate complex formulations to construct an easily understood contest among ideas.

The MAI emerged from secrecy just at the moment when oppositional forces were forming. Paradoxically, the vehicle for opposition was one of the signatures of the new global technology: the Internet. The confidential MAI draft agreement was obtained and sent over the Internet. NGOs that had been developing their capacities to communicate over this new technology pounced upon it and disseminated the document widely. Coalitions of new NGO groupings formed quickly and opened an Internet campaign that eventually was successful in forcing first Canada, then France, and subsequently the United States to pull the agreement off the table. In effect it was annulled before it could be introduced for ratification. This was the first Internet insurgency.

Most importantly, it was the signal moment in the struggle for ideas because it was the first outright defeat of a globalization proposal. Coming about a quarter century after the launch of globalization, it conforms to the long rhythm of the evolution of ideas, their initial hegemony, and then their contestibility.

The 1999 Seattle meetings of the WTO exposed the fault lines in the debate over globalization to a public that had been unaware of the brewing conflict. The birth of the WTO in the mid-1990s introduced the singular most important and first regulatory institution for the globalization epoch. It distinguished itself from the GATT, which had been in existence since 1948, precisely along globalizing lines. Material produced by the WTO described GATT as a regulatory regime that stopped at the borders of countries. GATT encouraged countries to lower tariff and non-tariff barriers to trade, allowing products to enter countries on equal terms with those produced inside the country. The WTO inserted itself inside borders to open up trade and it trumpeted this in its presentation. It set up mechanisms for changing internal policies within countries that interfered with the entry of products and services, thereby establishing itself as a regulator of domestic policies that affect trade. This has been most clearly identified with patents, trademarks, and copyrights – aspects of intellectual property – that countries such as India have been required to alter to conform to WTO requirements. The WTO received vastly enhanced rule-making authority over an extended jurisdiction that had not been part of the GATT and included services, intellectual property, agriculture, and investment. The WTO became the first institution in the new global era to receive enforcement authority over its decisions.

The Washington Consensus was built around the WTO, and it became the touchstone for a successful export of ideas about the new global economy. It also became the point of opposition in the Third World against a globalizing structure which it saw as biased against its interests in autonomous paths to development and organization of economy and society. The integration of markets globally carries with it an integration of policies and prices. Alongside the import and export of products and services, there is also an import and export of ideas, policies, regulatory standards for society, a collapse of all markets into a uniform price, including the »price« of social norms. This affects both North and South but in different ways.

Two analytical points highlight the chasm that has developed between defenders of the Washington Consensus and their opponents, one that affects the Third World and another that impacts on the G–7.

For the Third World there is both a timing and control problem with liberalizing markets and opening them to trade. Imports grow more rapidly than exports, creating first a problem of phasing in liberalization. Secondly and related, is the fact that import liberalization can be directly controlled but exports are a more elusive target, subject to the whims of competition and access, and therefore less responsive to market liberalization. Export markets take more time to develop and are less assured than import markets.

For the G–7 an unstated but principal objective of liberalization is capital mobility. NAFTA, the WTO, and other Washington Consensus goals are as much about capital export as product export. The real objective is access to low-wage, low-tax, and regulation-free markets in the Third World, not as places to sell products, but as places to produce products and sell them back to G–7 consumers. This has led to the advocacy of introducing labor and environmental standards by trade unions and NGOs in G–7 countries.

The WTO represents the tension between a globalizing process at odds with the nation state and the interests of political constituencies within nation states that turn to the democratic political process for attention to their interests. If an international institution whose decisions are not transparent and open to review can render decisions at odds with laws passed by national legislatures, then where does sovereignty reside? With the established democratic procedures of the nation state? Or with a WTO whose procedures are understood by only a handful of decision-makers? This is the form in which the issue became joined in the G–7 countries where an eruption of resistance emerged around issues different from – and at times diametrically at odds with – positions taken by Third World countries on the very same issues.

In the G–7 countries two sets of concerns set off alarm bells following on the raising of awareness of sovereignty questions during the MAI Internet discussions of 1998 and several WTO decisions. They concerned environmental and labor issues. The U.S. lost decision after decision within the WTO to Third World countries that challenged American laws protecting animal species, as in the Tuna-Dolphin case with Mexico and the Shrimp-Turtle case with southeast Asian countries. It also lost an environmental case brought by Venezuela. Europe lost cases to the United States over beef hormone and bananas, the latter seen as much of a food quality concern as one that represented preferential treatment for a region that politically had been assigned special status through a legitimate parliamentary process.

The problem arises with the WTO's foundation as a legally binding commercial treaty that embraces one single legal principle: the obligation of free access to markets. Legal systems always falter when only one criterion is available to adjudicate disputes. To function with legitimacy, legal systems evolve multiple principles within a hierarchy that allows judges to trade off competing maxims, adapting them to the specific facts of a case. WTO panels do not have such a menu available to them. Restrained by one single governing ideal, adjudicators of disputes cannot allow matters such as labor rights, the environment, or other standards to enter with the exception of the »precautionary principle« that protects health and safety. For the WTO to evolve as an effective rule-making body in international trade it requires multiple principles, with a defined hierarchy but with trade offs allowed depending upon the facts of the specific case.

The Issue of Labor Rights Standards

The MAI debate awakened labor to the role the WTO could potentially play in placing it at an extreme disadvantage with Third World regimes that did not abide by minimum core ILO (International Labor Organization) labor standards. Labor had always been aware of competition from low-wage Third World countries which it divided into two categories: those that adhered to the ILO standards, for which competition was legitimate and accepted, and those that did not, for which low wage competition was seen as prejudiced against labor. Costa Rica, for instance, that adheres to core labor standards, is in a different category from a country such as China that does not. This distinction is important because it has been represented in many Third World NGO circles that the U.S. and Europe simply want to use labor standards as a Trojan horse for protection. Not so and every reputable representative of the labor rights viewpoint distinguishes between those countries that accept and attempt to apply core labor standards and those that do not.

Labor and environmental interests argued for inclusion of these markets within the WTO regulatory system. They had been left out of the several thousand pages that gave birth to the WTO. If there is to be a WTO that regulates markets across and within borders so as to optimize trade, then two critical markets such as labor and the environment cannot be left out, according to this argument. If they are not part of the system, then in fact trade is not free because the price in a market such as labor is set by the state and not free. What is different from a government setting a subsidized price for a finished product or service, which is forbidden by the WTO, and setting the price for labor, or establishing conditions that prevent its increase, which by default is sanctioned by the WTO? For trade to be open, therefore, all important markets must be open. This applies to labor and environmental markets the same as it applies to intellectual property or product and service markets. The appeal is for one of consistency and completeness. Partially opened markets fall short of free trade.[2] This point of view does not address those constituencies that want to abolish the WTO. It is a case for a consistent WTO if there is to be a global regulatory regime built for international trade.

Labor and environmental standards complete the WTO system. The labor standards are the minimal core worked out by the ILO governing child labor, freedom of association to form trade unions, prison and bonded labor, and discrimination. In short, the core principles of the mid-20th century social contract that is under siege by globalization. Adopting core labor standards would protect and advantage those Third World countries that adhere to them and pressure others to meet higher standards. It would penalize those violators of human rights and assist those with better human rights records. So the labor standards case has benefits for both the G–7 and for those Third World countries trying to advance human rights in their own countries, while isolating the violators of core labor standards. It would reinforce comparative advantages associated with lower wages while preventing a race to the bottom that will only force wages to decline as gross violators of labor standards impose their wages on Third World countries trying to adhere to labor rights.

There is considerable disinformation about the consequences of introducing labor rights standards into the WTO. Wage levels would not be set and would not even be on the table for discussion. All that would be mandated would be compliance with the minimal ILO standards that require countries to make progress toward their implementation. Trade unions would not be required, only that free association be permitted so that trade unions and collective bargaining have the possibility of seeing the light of day and states do not stop the process from occurring. What is at stake is the extension of an open market for labor, as understood by late 20th century norms, so that all markets have the potential for transparent competition in an open trading system.

Other voices in the Third World are heard less often but support the inclusion of core labor rights in the WTO. There is support among the most democratic and dynamic trade unions in countries such as South Africa, Brazil, Malaysia, and such countries in transition as the Czech Republic. Over 50 union leaders from Third World countries took part in the Seattle representations. The President of the International Confederation of Free Trade Unions – the largest organization of labor in the world – is Leroy Trotman from Barbados who has led the organization in support of including core labor standards in the WTO. In 1997 over 100 countries reaffirmed their commitment to these labor standards at the ILO. »We are not asking for the moon,« remarked G. Rajasekaran, general secretary of the Malaysian Trade Union Congress, »but very basic things. Worker rights that are already universally endorsed, but simply not enforced.«[3]

2. I have written about this elsewhere: Howard M. Wachtel, »Labor and the World Trade Organization«, *The American Prospect* (March-April 1998).
3. Robert L. Borosage, »Who Speaks for the Third World?«, *The American Prospect* (January 17, 2000), p. 20.

The ingredients are not terribly difficult to imagine for a negotiated resolution of the differences between the Washington Consensus in the WTO, Third World concerns, and the pressure for including labor and environmental markets. Labor and environmental markets could be introduced into the WTO structure in return for three points made by the Third World:

- a renegotiation of the textile section of the WTO that accelerates the removal of quotas and binds the G–7 to their compliance,
- an opening of agricultural markets beyond existing WTO agreements,
- additional time to implement changes in intellectual property and other internal changes in the legal systems in Third World countries.

Concluding Remarks

All of the forces that massed in Seattle were present once again in Washington, D.C. in mid-April, 2000 at the annual mid-year joint meetings of the IMF and World Bank. Another opportunity for a constructive dialogue was lost. At some point, however, a comprehensive discourse over globalization and its discontents will commence or the opposing forces will repeat what amounts to a form of drive-by road rage. This should lead to a new social contract, one that builds on the old, jettisoning those aspects that are retarding of progress while including new forms, and is integrated with new global economic realities. A start would have to introduce international labor and environmental markets into the WTO's legal regime, followed by tax changes that restrain the ability of global capital to use lower-taxed Third World countries to avoid their legitimate tax obligations, and a new financial architecture suited to the global structure of finance.[4] ◀

4. See Howard M. Wachtel, »Tobin and Other Global Taxes«, *Review of International Political Economy* (forthcoming).