



Chapter 5 "The Viability of the Welfare State" by James J. Heckman

Welfare states -- especially corporative type (Nordic countries)
--> distorted labor market

On the "rule of law" and welfare state:

"Provisions of the welfare state, such as the right to economic security, are often interpreted as basic human rights that implement the rule of law. Rights that improve the lot of all or most in society should be distinguished from rights that benefit some at the expense of many. Many provisions of modern welfare states favor some while harming others. Programs that pay workers to withdraw from economic activity while others work to support them are examples of such provisions." (pp.115-116)

Argument: relation of economists and law -- Washington consensus and Post Washington consensus

1. What is "Washington Consensus?"

(1) Growth of the World Bank

Early phase (post-war) of the World Bank: Keynesian, modernization, welfare model
--> loan to industrialized countries

Establishment of the IDA (1961): the Bank transformed to a development agency

Depression in 1970s

Dominance of Neo-classical economists (1980s-) --> promoting neoliberal policies (the SAL)

- McNamara period (1968-1981) -- economics based on statistic, introducing the SAL in 1980.
- Thatcherism (1979-1990) and Reaganomics (1981-1990) --> small government orientation
- New Political Economy (NPE) (1970s -) -- "*getting the price right*"

"NPE significantly contributes to 'a profoundly cynical view of the state in developing countries' ... The proposition that individuals are only motivated by self-interest is an assumption 'breath-taking in its scope and pretention', which feeds into pessimism regarding the capacity of states in developing countries to implement 'sound' policies." (Engel, 54)

"Neoliberal regimes came to dominate the historic bloc in many developing countries, although not all of them by democratic means"

(2) Washington consensus

"Hegemonic economic principles shared between the Bank, the International Monetary Fund (IMF) and the US government. John Williamson labeled these commitments and policies the 'Washington Consensus' in 1990 and they centre on commitment to macroeconomic stability, outward orientation and domestic liberalization. ... So, the term Washington Consensus indicates the way neoliberalism translated to the policies and programmes of the Bank and distinguishes this from the broader theoretical and political movement of neoliberalism outlined in the previous chapter." (Engel, 56)

"The Reagan Administration appointed A.W. Clausen as Bank President in mid-1981. Clausen made major changes to the Bank's research department by replacing McNamara confidants with economists focused on a new research agenda centered on unquestioned faith in 'free market'." (Engel, 56-57)

economic stabilization	structural reform
budgetary austerity to control deficit, currency devaluation, price liberalization	trade liberalization, privatization, tax reform, land "reform", banking deregulation, liberalization of capital movements, poverty alleviation and social safety net (late 80s, very selective), good governance (multi party election)

source: Engel p.58



2. What is "post-Washington consensus"?

(1) Rise of New Institutional Economics

North (1990: 36) "In the Western world, we think of life and the economy as being ordered by formal laws and property rights. Yet formal rules, in even the most developed economy, make up a small (although very important) part of the sum of constraints that shaped choices; a moment's reflection should suggest to us the pervasiveness of informal constraints. ...In our daily interaction with others, whether within the family, in external social relations, or in business activities, the governing structure is overwhelmingly defined by codes of conduct, norms of behavior, and conventions. ...Underlying these informal constraints are formal rules, but these are seldom the obvious and immediate source of choice in daily interactions."

"As Douglass North ... stated, NIE: is an attempt to incorporate theory of institutions into economics. However, in contrast to the many earlier attempts to overturn or replace neoclassical theory, the new institutional economics builds on, modifies and extends neoclassical theory to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken." (Engel 63)

market = to be failure --> institution and non-market factors = key role in mitigating the failure

human =/= rational

human = constrained by emotional affect, limited cognitive ability and imperfect information

(2) PWC

"By the mid-1990s, the move away from the Washington Consensus was more pronounced as the Bank promoted its 'human face' under the new president, James Wolfensohn. Over time, the Bank's new rhetoric formed an identifiable approach to development, which has been labelled the post-Washington Consensus (PWC) to indicate both its continuities and discontinuities with the Washington Consensus. To date, the components of the PWC have not been outlined systematically." (Engel 56)

- Comprehensive Development Framework (CDF)
- Emphasis on "governance" -- more brief on centrality of state-political action in economic affairs
The bank's report in 1998: "...the aid only helps to increase growth in countries utilizing 'sound' economic policies and good governance." (Engel 66-67)
- Critical reviewing the SAL style "one size fit all" approach --> PRSPs (ownership oriented)

Key features of the PWC (Engel 72-73)

- fundamental continuation of the neoliberal approach to monetary and fiscal policy (with caution to market failure);
- abandonment of one-size-fit-all approaches;
- ownership of recipient;
- less hostility to state;
- increased concern with market failure;
- great concern for the social costs of adjustment and poverty in general;
- appreciation of local knowledge and practices;
- attention to decentralization;
- slightly broader approach to health and education;
- concern with corruption.

Reference:

Engel, Susan, *The World Bank and the post-Washington Consensus in Vietnam and Indonesia: Inheritance of loss*, Routledge, 2010.

North, Douglass C., *Institutions, Institutional Change and Economic Performance*, Cambridge Univ. Press, 1990.