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Where to Neoliberalism? The World Bank and the Post-Washington consensus in Indonesia and Vietnam

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This paper attempts to summarise a number of the ideas from a current, Gramscian-inspired research project on the form and nature of World Bank's[2] shift away from the Washington Consensus, which the World Bank publicly and loudly claimed to have achieved by 1997. The Bank's new approach was labelled by critical academics as the *post*-Washington Consensus (PWC) because their analyses of the policies and rhetoric indicate a continued commitment to the core ideas of the Washington Consensus. My research explores not just the Bank's underlying development discourse but also the practical consequences of the new themes and ideas of the PWC as they are played out in the Bank's lending program. I do this via case studies of Bank lending in two countries: Vietnam and Indonesia. The case studies examine all loans to these countries in two periods: 1993-1997 to equate to the Washington Consensus period; and 2000-2004 for the PWC. The case studies form the basis of some conclusions outlined here about the extent to which the shift in rhetoric associated with the post-Washington Consensus has been incorporated into lending practices with the aim of providing insights into neoliberal development discourse more broadly. In line with the project's Gramscian inspiration, the analysis of the form and content of the Bank's *modus operandi* is undertaken with the aim of contributing to a challenge to mainstream development discourse and more broadly to the dominant global hegemony, which the Bank both reflects and propagates.

Hegemony and International Institutions

Hegemony is used by Gramsci to describe "a relation, not of domination by means of force, but of consent by means of political and ideological leadership. It is the organisation of consent."[3] Gramsci was predominately interested in how the working classes can organise to obtain hegemony within a

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[2] The World Bank Group is comprised of five institutions. My work focuses on its development lending arms, the International Bank for Reconstruction and Development and the International Development Association. These are what the World Bank Group itself states is meant when using the term 'World Bank' *The World Bank Group Website* (Date of access: March 2003); available from: http://www.worldbank.org.

[3] Roger Simon, *Gramsci's Political Thought: An Introduction* (London: Lawrence & Wishart Ltd, 1991), p.22.

country, however, he also analysed the nature and form of bourgeois hegemony. Perry Anderson claims that it was this later use of “the concept of hegemony for *a differential analysis of the structure of bourgeois power in the West*” that “was a new and decisive step.”[4] This later usage of hegemony is also where he developed it as a combination or synthesis of coercion and consent.[5] Of course, Gramsci’s purpose in analysing bourgeois hegemony retains Marx’s emancipatory focus — understanding and combating the stratification of society between the rulers and the ruled.

Gramsci’s analysis is fertile and complex and has led to many subsequent debates regarding his interpretation of the civil society / state nexus, leadership, intellectuals, alliances, ideology and the framing of knowledge and the relationship between the economic ‘base’ and social and political structures. However, a key concept for an analysis of international hegemony is that of ‘historic blocs.’ Historic blocs result when dominant forces in a national community are able to predominate for long periods.[6] They are fundamentally linked to the economic base and thus provide the framework for decision about the distribution of goods. They also enable analyses to go beyond a traditional Marxist focus on class, promoting an analysis of social forces that is not limited by ownership of the mean of production and can incorporate populist, cultural, religious, theoretical and other ideological movements.[7]

Historic blocs are not always hegemonic, nor are they static — social forces are constantly shifting, influenced by counter-hegemonic movements as well as shifting power within the dominant social forces. Gramsci highlights two types of change in his analysis, one is short-term and non-structural, whilst the other is significant, structural and often long lasting.[8] Structural change generally results in re-shaping all elements of the historic bloc — institutions, alliances and ideology.[9] Gramsci does not dismiss either form of change because: “a social form always has marginal possibilities for further development and organisational improvement.”[10] However, he has a particular interest in the response of dominant social forces to significant changes in socio-economic systems and concludes that they normally employ a strategy of ‘passive revolution’ or ‘revolution from above.’ The primary form of

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[4] Perry Anderson, "The Antinomies of Antonio Gramsci," *New Left Review* 100 (1976), p.20.
[5] Ibid, p.31.
[6] Antonio Gramsci, *Selections from the Prison Notebooks of Antonio Gramsci*, trans. Quintin Hoare and Geoffrey Nowell Smith (London: Lawrence and Wishart, 1971), pp.365-6. See also Simon, *Gramsci's Political Thought*, pp.32-33.
[7] T.J. Jackson Lears, "The Concept of Cultural Hegemony: Problems and Possibilities," *The American Historical Review* 90, no. 3 (1985), p.571.
[8] Gramsci, *Selections from the Prison Notebooks*, pp.175-85.
[9] Simon, *Gramsci's Political Thought*, p.39.
[10] Gramsci, *Selections from the Prison Notebooks*, p.222.

this strategy is utilisation of the institutions of the state to achieve structural changes in the economy to shape a new historic bloc.[11]

For Gramsci, the advance to socialism required that labour and other emancipatory movements join to build a counter-hegemony. This requires a prolonged strategy of moral and ideological reform, which Gramsci labelled 'war of position' to distinguish it from the 'war of movement' of the Russian Revolution where state power was seized with a military attack on the state. A war of position, emphasising moral and intellectual growth, is the most effective strategy for rebuilding social relations, particularly in modern liberal capitalist societies with complex state—civil society formations. It is a difficult strategy as there is a constant danger in acceptance of incremental gains within the existing hegemony that can capture a movement and turn it from a long-term emancipatory strategy. Equally, hegemonic forces are constantly engaged in their own war of position and employ overlapping strategies of coercion and consent to this end.

Hegemony, for Gramsci, is organised and analysed at the national level — understanding the specific social, historical and cultural organisation within a country is seen as essential to an empancipatory project.[12] He does not have as much to say about either analysing or challenging hegemony operating cross-countries or 'internationally,' though his analysis is not limited by the concept of the nation-state. Further, there are a number of examples in his work of analysis of the simultaneous operation of social forces in national and international arenas. These include his critique of the Commintern, the impact of Fordism on Europe and his writing on the structure and organisation of the Catholic Church.[13] Ultimately, though, the lack of an explicit analysis of the hegemony at the international level is a difficulty for a project such as this focused on an international institution. This is where Robert Cox's work is useful: Cox developed a framework for analysing hegemony at the level of world orders and the key role of international institutions. In his schema, hegemonic and non-hegemonic forces are analysed utilising three interrelated spheres of historically current activity: social forces, states and world orders.[14] In contrast to much mainstream (neorealist) International Relations theory, Cox does

[11] Simon, *Gramsci's Political Thought*, p.50. On the sometimes competing uses of the terms 'state' and 'civil society' in Gramsci see Anderson, "The Antinomies of Antonio Gramsci," pp.10-13.
[12] Simon, *Gramsci's Political Thought*, p.35.
[13] On Fordism see Gramsci, *Selections from the Prison Notebooks*, pp.279-318. His analysis of the Catholic Church is more scattered see, Antonio Gramsci, *Prison Notebooks*, trans. Joesph A. Buttigieg, vol. II (New York: Columbia University Press, 1996), especially the Fifth Notebook but also pp.76, 116-7. For an analysis of the international nature of this analysis see, Enrico Augelli and Craig N. Murphy, "Gramsci and International Relations: A General Perspective and Example from Recent US Policy Towards the Third World," in Stephen Gill (ed). *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1993), pp.129-30 and 44. Anderson points out the "terrain of discourse is manifestly universal," Anderson, "The Antinomies of Antonio Gramsci," p.20.
[14] Robert W. Cox, "Social Forces, States and World Orders: Beyond International Relations Theory," in R Keohane (ed). *Neorealism and Its Critics* (New York: Columbia University Press, 1986), p.223. See also Augelli and Murphy, "Gramsci and International Relations," pp.129-30.

not accept the unity of the state. Forms of state need to be explained via analysis of state and civil society (social forces) connections. They can be influenced by the structure of the world order and can influence the structure. Cox utilises the Gramscian idea of an 'historic bloc' to analyse the development of forms of states and their underlying dominant social forces as well as their movements towards hegemony. And following Gramsci too, the purpose of this is always a practical one — only through such understandings the potentials for resistance and transformation be developed.[15]

In the final sphere of world orders, Cox retains (as in Gramsci) the national sphere as the foundation of the creation of hegemonic historic blocs. Thus he suggests, that a "world hegemony is thus in it beginnings an outward expansion of the internal (national) hegemony established by a dominant social class."[16] However, a national hegemony can form the basis of a world order if the hegemony is universalist and the national state can ensure its development and protection. As Andreas Bieler and Adam Morton explain:

> [h]egemony can therefore operate at two levels: by constructing an historical bloc and establishing social cohesion *within* a form of state as well as by expanding a mode of production *internationally* and projecting hegemony through the level of world order.[17]

For Cox, America, in conjunction with other Western states, has in the post-World War Two period been able to project its hegemony internationally not just in the mode of production but also in the internationalisation of the liberal capitalist state. He labels this hegemonic project, *pax americana,*

Pax americana involves internationalising and normalising the liberal capitalist state via practices such as policy harmonisation; influence on key state agencies in both dominant and other states; and via international institutions.[18] Cox identified a range of ways in which hegemony is expressed by the creation and operation of international organisations, which are both the products of the hegemonic world order and institutions that facilitate the expansion of the rules of that order. Thus as the product of *pax americana*, the World Bank at times represents the interests of hegemonic state/s but also the interests of the international financial markets on which it is reliant for access to capital.[19] Institutions generally function to legitimate rules, engage social forces in developing countries and they serve to "absorb counter-hegemonic ideas."[20] The historian Giovanni Arrighi focuses on the coercive and economic aspects of hegemony viewing it as "the power of a state to exercise governmental functions

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[15] Cox, "Social Forces, States and World Orders," p.230.
[16] Robert W. Cox, "Gramsci, Hegemony, and International Relations: An Essay in Method," in Robert W. Cox and J. Sinclair (eds.), *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), p.137.
[17] Andreas Bieler and Adam David Morton, "A Critical Theory Route to Hegemony, World Order and Historical Change: Neo-Gramscian Perspectives in International Relations," *Capital & Class* 82 (2004), p.93.
[18] Cox, "Social Forces, States and World Orders," pp.230-32.
[19] Gramsci, *Selections from the Prison Notebooks*, pp.313-5; and Richard Peet, *Unholy Trinity: The IMF, World Bank and WTO* (London: Zed Books, 2003), p.202.
[20] Cox, "Gramsci, Hegemony, and International Relations," p.138.

over a system of sovereign states." His analysis of the shift from the previous period of hegemony, which he calls 'Free-Trade Imperialism' to the current period of US hegemony, also highlights the importance of institutions and rules and norms. Arrighi argues that in:

> comparison with Free-Trade Imperialism, the institutions of US hegemony have considerably restricted the rights and powers of sovereign states. The principles, norms, and rules to which states must submit have increased in number and have become tighter, while a growing number of supranational organisations have acquired autonomous power to overrule the interstate system.[21]

The strength of US hegemony is demonstrated by that fact that it is impossible to operate outside of the network of institutions, norms and transnational corporations, except at enormous cost.[22] With the increasing incorporation of the former communist states, this argument is even truer today than when it was written over ten years ago.

What does the work of Gramsci, Cox, Arrighi and others suggest should be asked about the World Bank? First, it indicates that the Bank needs to be studied as an institution that serves the interests of the dominant historic bloc, *pax americana*, with the provisos that it is both historically contingent and never complete — there are always challenges, complexities and counter-hegemonies. Thus a study of the Bank should explore not just how and where it has successfully legitimised rules or supported particular social forces but also where it has not been successful, that is where the gaps or tensions are. Second, one particular complexity is that the World Bank is an international bureaucracy and Gramsci noted that bureaucracies are subject not just to the will of sometimes competing states but have their own dynamics that results in the development of their own interests and logics.[23] Third, international institutions operate differently in different locations, they utilise what Gramsci called democratic centralism to allow adaptation to different local social, political and economic realities.[24] This adaptive capacity is central to the survival of not just the organisation but to the social forces they represent. Studying what can be modified and, more pertinently, what can never be challenged, sheds much light on the nature of *pax americana*. Fourth, a Gramscian framework directs attention to how World Bank policies and programs are best understood in the coercion/consent dialectic and whether the post-Washington Consensus has resulted a shift in this balance. Finally, the framework points to questions about whether the post-Washington Consensus represents structural and fundamental transformation or whether it involves utilising the state to continually shape the current historic bloc.

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[21] Giovanni Arrighi, "The Three Hegemonies of Historical Capitalism," in Stephen Gill (ed). *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1993), p.182.
[22] Ibid.
[23] Gramsci, *Selections from the Prison Notebooks*, p.175.
[24] Ibid, p.188.

Pax Americana and the Washington Consensus

The ideas summarised in the term Washington Consensus started to influence the World Bank during the later part of the presidency of Robert McNamara, who had dramatically expanded the Bank's operations and influence.[25] However, it was with the Reagan Administration appointed A. W. Clausen in mid-1981 that the Washington Consensus took hold in the Bank. Clausen himself was an ex-banker and "a representative of renewed capitalist doctrine concerning the limits of government and the virtues of flexible, self-adjusting markets."[26] In the Bank staff economists trained in neo-classical economics and the associated 'New Political Economy' increasingly outnumbered technical specialists indicating the growing ascendency of the Washington Consensus.[27] Anne Kruger, one of the pioneers of the New Political Economy, was appointed as the Bank's Chief Economist.

Over time, the Bank, the IMF and the US Government developed a shared belief in a range of economic policies, derived from neoliberalism, which centred on commitment to macroeconomic stability, outward orientation and domestic liberalisation. In 1990 John Williamson labelled these commitments and policies 'the Washington Consensus.'[28] The term, of course, stuck and since then much has been written about it. The broad commitments were associated with a common set of policies prescriptions used by the Bank and IMF as conditions for their loans. The policy prescriptions were generally implemented in a two-phase process, which as Michel Chossovusky has described, involves in phase one short-term macroeconomic stabilisation and in phase two, long-term structural change via a range of microeconomic reforms — a brief outline of these policies follows.[29]

<u>Phase One: Economic Stabilisation</u>

This phase of short-term macroeconomic stabilisation was designed to control balance of payments and budgetary deficits. Implemented predominately by the IMF, key policies prescriptions included:

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[25] Susan George and Fabrizio Sabelli, *Faith and Credit: The World Bank's Secular Empire* (London: Penguin Books, 1994), pp.42-55.

[26] Devesh Kapur, John P. Lewis, and Richard Webb, *The World Bank Its First Half Century*, 2 vols., vol. 1: History (Washington D.C.: Brookings Institution Press, 1997), p.511.

[27] On the impact of neo-classical economics and the New Political Economy on development theory see John Rapley, *Understanding Development: Theory and Practice in the Third World* (Boulder, Colorado: Lynne Reinner Publishers Inc., 2002), pp.51-72, John Toye, *Dilemmas of Development*, Second ed. (Oxford: Blackwell Publishers, 1993).

[28] Ben Fine, *Social Capital Versus Social Theory: Political Economy and Social Science at the Turn of the Millennium* (London: Routledge, 2001), p.132.

[29] The following section is based on Michel Chossudovsky, *The Globalisation of Poverty: Impacts of IMF and World Bank Reforms* (London: Zed Books, 1997), pp.55-67. See also Eric Toussaint, *Your Money or Your Life! The Tyranny of Global Finance*, trans. Raghu Krishnan and Vicki Briault Manus (London: Pluto Press, 1999), pp.141-50.

- Budgetary austerity to control deficits — this requires dramatic cuts in recurrent expenditure in particular cuts to public sector employment, social sector programs and indeed, often investment programs.
- Currency devaluation, often an end to currency controls or, at minimum, multiple exchange rate policies and the so-called ‘dollarisation’ of domestic prices.
- Price liberalisation —often referred to as ‘getting prices right’, meaning ending subsidies and price controls. This generally affects areas such as staple foods and their production, whilst at the same time prices for energy, petroleum and other public utilities are often set higher than world market prices.

Phase Two: Structural Reform

The IMF and World Bank implemented microeconomic reform policies jointly. Key aspects were:

- Trade liberalisation — reduction and elimination of tariffs and quotas to encourage an export focus.
- Privatisation of state owned enterprises and utilities, often linked to a program of microeconomic reform in various sectors .
- Tax reform — often the introduction of value-added taxes which increase the tax burden on lower and middle classes and tax breaks for targeted investment.
- Land “reform” — a misnomer as this essentially refers to ensuring the security and stability of private land ownership.
- Banking deregulation — linked to privatisation of state-owned banks, it involves reducing central bank control over interest rates.
- Liberalisation of capital movements, that is the removal of foreign exchange controls.
- In the late 1980s, a focus on poverty alleviation and social safety nets was added — the focus was on cutting overall social expenditure and selectively ‘servicing’ the poorest (a supposedly low cost, efficient approach).
- Good governance — in the 1980s this essentially meant the holding of multiparty elections condition but, in the post-Washington consensus era, it has taken on a life of its own.

By the early 1990s, at least four factors came together to present notable challenge to the Washington Consensus program. First, the debt crisis, a key catalyst for the implementation of Washington Consensus policies, had if anything worsened — Third World debt rose from $785 billion in 1982 to $1.3 trillion in 1992. The composition also changed with a larger portion owed to international financial institutions than to private sources.[30] Second, the Washington Consensus did not convincingly address problems of economic growth and poverty. In the 1980s, despite the extensive application of its policies, economic growth was zero or even negative in most of the developing world, the numbers living in absolute poverty actually increased in a number of regions, and income distribution disparities both within developing countries and between the developing and developed worlds widened. [31] These trends continued into the 1990s. Nevertheless, in 1993, the Bank was still declaring structural adjustment as success.[32] The third factor was the growth of a new school of economic thought, derived still from neoclassical economics but with a much-expanded view of what constitutes market failures — to problems of externalities, increasing returns to scale and monopolies, New Institutional Economics adds information and transaction costs failures. New Institutional Economics develops a picture of markets with extensive imperfections as opposed to the neoliberal view of perfectly working markets.[33] The final factor was that in America and other parts of the West, New Right governments were replaced by more 'liberal' ones and, while these governments did not fundamentally challenge or reject Washington Consensus programs, they were more concerned about social costs and poverty.

In the World Bank itself, as Ben Fine points out, the shift towards New Institutional Economics was not only because of the weight of theoretical critique against the Washington Consensus or the analytical or theoretical superiority of the new 'paradigm.'[34] It was also because of, first, the Bank's need for differentiation from the IMF after the convergence of both policy prescriptions and lending instruments in the 1980s. Second, it reflected the need to justify the extension of conditionality beyond economic policy into issues of governance, which I would add, provides the Bank with a new *raison d'etat* for lending and thus for its very existence. Third, the post-Washington Consensus could be marketed as a response to calls for local 'ownership' of development programs while at the same time facilitating compliance with the broadened agenda; fourth, it reflected and accommodated the growing influence of Japan — an influential Washington Consensus sceptic — as a donor.[35] Fifth, the PWC gave the Bank a 'human' face, it showed it responding to the growing NGO critique of structural adjustment as well as their calls for increased focus on poverty alleviation and local participation.

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[30] Walden Bello, *Dark Victory: The United States, Structural Adjustment, and Global Poverty* (London: Pluto, 1994), p.69.
[31] For a good overview and analysis of the successes and failures of Washington Consensus policies see Rapley, *Understanding Development*, pp.73-110.
[32] See World Bank, *Global Economic Prospects and Developing Countries 1993*, cited in Bello, *Dark Victory*, p.32.
[33] Ben Fine, "Neither the Washington nor the Post-Washington Consensus: An Introduction," in Ben Fine, Costas Lapavitsas, and Jonathan Pincus (eds.), *Development Policy in the Twenty-First Century: Beyond the Post-Washington Consensus* (London: Routledge, 2001), pp.4-5.
[34] Ibid, pp.10-13.
[35] Paul Burkett and Martin Hart-Landsberg, "A Critique of "Catch-up" Theories of Development," *Journal of Contemporary Asia* 33, no. 2 (2003), pp.10-13.

As with the Washington Consensus the shift to the PWC was gradual — the 1993 Bank report, *The East Asian Miracle*,[36] was undoubtedly a milestone, however, the shift is closely associated with Clinton administration appointed, James D. Wolfensohn, who became President in 1995. The purpose of this paper is not to explain the process of the shift, rather I will simply outline the key differences between the two. These are:

- A fundamental continuation of the neoliberal approach to monetary and fiscal policy, however, approaches to liberalisation are meant to be more cautious given concerns about market failure and applicability to local conditions.
- Following from above, and the (supposed) abandonment of one-size-fits-all approaches to development, there should be greater attention to the specific country situation. This should include better developed socio-economic analysis of local conditions as well as consideration of global and regional impacts.
- Recipient government's should own their development program and projects; in a strong version this would mean recipient government's initiating and controlling development assistance projects, a weak version is indicated by reference to proxies for commitment such as counterpart funding and expressions of support.
- An expansion of the role of state as a compliment to, rather than competition for, markets — in a weak form this only promotes a state that provides a good policy environment for business, in other words an active, pro-capitalist state.[37] A further step would allow more space for state institutions to engage with market imperfections (information and transaction costs). A strong version, which indicates a genuine engagement with the state as actor, requires an analysis of actors and interests in the society and the distribution of power/ resources between them as well as analysis of who wins and looses from policy proposals.[38]
- Increased concern with *market* failure to complement existing focus on government failure — this would be indicative of a stronger version of the post-Washington Consensus. Practical outcomes would include analysis of markets prior to promotion of privatisation.
- Increased attention to the sequencing of reform programs, in particular the development of adequate regulatory frameworks relevant to local conditions prior to liberalisation.
- A greater concern for the social costs of adjustment and poverty in general.

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[36] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993). On its impact see, Robert Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance: *The East Asian Miracle* in Political Perspective," *New Left Review* 217 (1996), p.23.
[37] Paul Cammack, "What the World Bank Means by Poverty Reduction" (paper presented at Staying Poor: Chronic Poverty and Development Policy, IDPM, University of Manchester, 7-9 April 2003), p.5.
[38] Veronika Wodsak, "World Bank Reform — a Critical Investigation: Change and Continuity in the World Bank's Approach to Development in the 1990s" (A thesis submitted for the degree of Master of Arts, Queen's University, 2002), p.44.

- A seeming more genuine appreciation for local knowledge and practices tempered by a concern about coherence and coordination.[39]
- A concern with and analysis of social capital — current analysis suggests this extends to economists analysing social factors but not social scientists in the Bank analysing the economy and state.
- Expanded participation in the planning, design and implementation of activities, this needs to be considered both in terms of the type of participants involved (bilateral and multilateral organisation, levels of government, levels of civil society and the private sector) and the extent and nature of the participatory process.
- Increased attention to decentralisation as a policy prescription for supposedly increasing participation, ensuring local needs are met and improving governance.
- A slightly broader approach to health and education.
- A reformulated interest in corruption, based on the New Institutional Economics view of it as the product of government *and* market failures — this expands the possibilities for action to address it beyond the Washington Consensus mantra of smaller government and makes it a less dangerous area for the Bank by transforming it from a political issue to a supposedly economic one.

As outlined earlier, in order to analyse the impact of the Washington Consensus and PWC on Bank lending I analysed the Bank's program and lending projects in Vietnam and Indonesia in two case study period: 1993-1997 to equate to the Washington Consensus period and 2000-2004 for the PWC. The analysis included an examination of the Bank's key policy documents and the directions of the overall lending in terms of sectors and types of lending. It also included a detailed examination of all Bank lending operations in the two case study periods. I now utilise this analysis to give an overview of the change in World Bank lending practice under the PWC in four of these areas: approach to monetary and fiscal policy; country specificity; recipient government ownership; and the role of the state.

Approach to Monetary and Fiscal Policy

As suggested by analysis of the rhetoric of the PWC, the Bank continues to focus on economic growth as the key to development and its view of growth is centred on a neoliberal approach to monetary and fiscal policy. In Vietnam, in both case study periods, conservative monetary and fiscal policy focused the Bank on price liberalisation to control the budget deficit and inflation and to 'get the prices right', currency devaluation and financial sector reforms, privatisation of state enterprises, openness to

[39] Ibid, p.91.

foreign direct investment, de-collectivisation and property rights, as well as limited and highly targeted social programs.[40] Notably, in the Bank's structural adjustment lending to Vietnam, there is an expansion of the agenda between 2001 and 2003: the core Washington Consensus issues outlined above remained most critical, but health, education, environmental sustainability, government planning and legal reform now form part of the agenda. However, none of these additional issues are framed in a way to challenge the conservative fiscal policy agenda. For example, spending on education is limited to basic education by the neoliberal fiscal restraint for the state and private education is encouraged. Equally, health care in the PWC period is still regarded as the responsibility of the individual and spending by the state is to be constrained, thus the Bank accepts expenditure only on a limited package of primary health care interventions for the poor.

On monetary policy, thanks in part to the large currency devaluations in the late 1980s, Vietnam is seen as operating a relatively sound policy. The Bank sees that Vietnam needs to progress more quickly towards a floating exchange regime but, in contrast to both standard the Washington Consensus program and policy in other countries, it seems to accept a role for controls on short-term capital flows. However, they promote faster liberalisation in the foreign investment regime and in interest rates as per traditional Washington Consensus prescriptions.[41] The concern with short-term capital flows appears to be the most significant local adaptation of the PWC agenda on monetary and fiscal policy analysis by the Bank, but it was one largely forced upon it by the Government of Vietnam's (GoV) intransigence on the issue. This demonstrates both the importance of strong counter-hegemonies but also arguably that, for the Washington Consensus, policy on short-term capital flows is not as sacred as securing open foreign investment regimes or liberalised interest rates.

In Indonesia, the Bank actually increased its concern with tightening the overall fiscal constraint on the state in the post-Suharto period — the more democratic, but weakened state has received less support than its authoritarian predecessor. However, it has combined this with rhetoric on increasing expenditure aimed at poverty reduction. In terms of the Bank's actual expenditures, they have slightly increased health expenditure but other so-called poverty reduction expenditures are essentially through their lending operations in governance. The Bank's increased concern with the Indonesian government's level of debt resulted in a dramatic decrease in the scale of its own lending program to Indonesia and increased use of conditionality aimed at removing fuel and other subsidies. The Bank is also more focused on increasing private provision of infrastructure despite a pointed lack of interest from the private sector.

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[40] See World Bank, *Viet Nam - Structural Adjustment Credit I Program Information Document* Report No. PIC1073 (1994).

[41] World Bank, *Country Assistance Strategy of the World Bank Group for the Socialist Republic of Vietnam* Report No. 24621-VN (September 16 2002), Annex D1, pp.4-7

On monetary policy, the Asian Financial Crisis resulted in the end of the quasi-fixed exchange rate system on which the Bank laid a part of the 'blame' for the crisis, in combination with the liberalised current account and corruption. During the PWC case study period, the Bank maintained a commitment to floating exchange rates, a liberal current account and market interest rates — these were core criteria in determining the level of its lending program.[42] In Indonesia, the neither the PWC nor the Crisis seems to have altered Bank hostility to capital controls, even on short-term capital flows. Overall, the Washington Consensus agenda on monetary and fiscal policy predominates though there is now increased willingness to sacrifice particular elements in order to pursue the overarching vision.

Country Specificity

The PWC claims to have left behind the one-size-fits-all approaches to development so negatively associated with the Washington Consensus. If this were the case, one would expect to see increased attention to, and analysis of, each country's specific social, political and economic realities and an increased diversity of projects and approaches. At the level of the Bank's Country Assistance Strategy (CAS), the PWC approach could present itself in the form of better developed socio-economic analysis of local conditions as well as consideration of global and regional impacts. Yet the social, economic and political analysis in the Vietnam CAS of 2002 remains thin. Social aspects receive little attention and the economic analysis is brief and mainstream. The focus is on the need for a faster pace of policy reform connected to building a market economy. The short section on the medium-term outlook focuses on the (presumed) link between continued policy reform and economic growth. There is no consideration of the potential impacts of the external environment. The CAS claims to promote the GoV's own agenda and be based on GOV planning documents, yet it simply cannot accept the GoV objective of a "*socialist*-orientated market economy" which translates in Bank documents to a neoliberal vision of "[h]igh growth through a transition to a market economy."[43]

In Indonesia, the 2001 CAS contains a more substantial social, political and economic background analysis than the earlier CASs, or indeed the 2002 CAS for Vietnam.[44] There is a strong focus on the PWC themes of participation, decentralisation, poverty and governance. The Bank claims that the

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[42] World Bank, *Country Assistance Strategy of the World Bank Group for Indonesia* Report No. 21580-IND (January 4 2001), pp.11-2.
[43] The GOV's planning document is: Socialist Republic of Vietnam, *The Comprehensive Poverty Reduction and Growth Strategy* (Hanoi: May 2002), p.6, emphasis added. For the Bank see, World Bank, *Vietnam CAS 2003-2006*.
[44] World Bank, *Indonesia CAS 2001-2003*. The report notes that the need to "absorb the political, institutional and social dimensions more fully in our country assessments" was one of its key lessons from the Asian Financial Crisis, ibid, p.16.

CAS is informed by consultation with 'civil society organisations.'[45] However, civil society is that which is structured into organisations, trained, evaluated and finally legitimated by the process of their incorporation into Bank consultation. Despite this incorporation, as Bernadette Whitelum's study of World Bank/NGO relations in Indonesia demonstrates, the Bank regards the NGO sector as lacking capacity, maturity and an appropriate view of the Bank and of Indonesian development.[46] The Bank "has assigned itself a role *in shaping* Indonesian NGOs in order to further *its* vision of Indonesia."[47] Perhaps because of this view, it struggled to find NGOs willing to engage with it for CAS and other consultations on its terms.

In terms of the Bank's lending, the utilities sector, in particular, electricity and water supply and sanitation, provides a good test against which to assess advances in country specificity because the Bank's Washington Consensus model for utilities privatisation has often been critically assessed in this area. Yet, the case studies demonstrate that the model clearly still predominates and country specificity remains lacking. The Bank's utilities privatisation model has two core components: first, separating profitable urban operations of utilities from unprofitable rural ones, effectively removing capacity to cross-subsidise operations; and second, separating the various operational units of utilities. In water, this means separating water supply from sanitation; in electricity it involves separating generation, transmission and distribution. Initially the Bank promoted gradual separation followed by privatisation, however from the mid-1990s there was a strong push for more radical privatisation.[48]

In Vietnam, the Bank has been constrained by the GoV to pursuing a gradual approach to privatisation, nevertheless the privatisation model clearly drives Bank lending. In water supply, much of the unbundling process was carried out under the GoV's decentralisation program, with some technical assistance from the Asian Development Bank. The Bank's major push has been to expand corporatisation and private participation in district centre's water supply. For existing public water supply companies, the focus is corporatisation via access to competitive funding based on business performance. For new water supply operations, the Bank only funds competitively tendered constructions and operations. In electricity, the Bank's focus has been on introducing independent power producers (IPPs) in generation, even in the absence of the appropriate legislative environment.

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[45] Because of the suspicion in which the Bank is held in Indonesia, it struggled to recruit an organisation to conduct the consultations with civil society, Bernadette Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs: An Indonesian Case Study" (A thesis submitted for the degree of Doctor of Philosophy, Australian National University, 2003), p.190.
[46] Ibid, pp.199-200.
[47] Ibid, p.188.
[48] Xu Yi-chong, "Models, Templates and Currents: The World Bank and Electricity Reform," *Review of International Political Economy* 12, no. 4 (2005), pp.655-6. See also Rudolf Nsorwine Amenga-Etego and Sara Grusky, "The New Face of Conditionalities: The World Bank and Water Privatization in Ghana," in David A. McDonald and Greg Ruiters (eds.), *The Age of Commodity: Water Privatization in Southern Africa* (London: Earthscan, 2005).

In the second case study period, the Bank's focus was the separation of urban and rural operations by formalising the separation over one thousand rural electricity distributors from the national electricity corporation. The Bank's appraisal reports include virtually no analysis on the viability of these small operations thus indicating a lack of country specific analysis. Equally on tariffs in both water supply and electricity, the Bank's only position across both periods studied is that they must be increased, even in the wake of the Asian Financial Crisis there was no analysis of the economic, social or political impacts of immediate increases, the formula dominated.

In Indonesia, political instability in the wake of the fall of the Suharto regime, offered the Bank the chance to pursue a radical approach in both water and electricity. In an interesting statement on the Bank's commitment to country specificity, the 2003 loan to the electricity sector in Indonesia acknowledges that generation shortfalls in the near future are the "most critical issue facing" the country.[49] However, the Bank says it will not fund generation and provides no explanation as to why. Instead, it funded a project providing both investments in the transmission system and implementation of an action plan to restructure the Indonesian electricity company's urban operations (PLN in Java-Bali) into four or more generation companies, five distribution companies and one transmission company and to privatise the generation companies first. In other words, key steps in achieving the Washington Consensus model of utilities' privatisation.

Average size of loans is also an indicator of the Bank's trade off between project quantity and country specificity and quality.[50] In both Vietnam and Indonesia the average and median loan size remained, in both case study periods, close to the Bank's standard size of around $100 million. Overall, it is difficult to conclude that country specificity has impacted significantly on lending.

Recipient Government Ownership

The Bank's Comprehensive Development Framework (CDF) — the most developed statement of the PWC — emphasises that recipient government's should own and control their development program and projects. For the most part, the Bank proposes to achieve this ownership by countries developing PRSPs in line with the Bank's sourcebook. For HIPC countries, a PRSP is a Bank condition for continued access to lending, but neither Vietnam nor Indonesia are in this category. PRSP are meant to be a pre-condition for access to structural adjustment lending, although this requirement was waived in the crisis situation in Indonesia in 1997/98. In 1999, the GoV requested involvement as a pilot CDF /

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[49] World Bank, *Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Java-Bali Power Sector Restructuring and Strengthening Project* Report No. 25414-IND (June 4 2003), p.9.
[50] Gustav Ranis, "The World Bank near the Turn of the Century," in Roy Culpeper, Albert Berry, and Frances Stewart (eds.), *Global Development Fifty Years after Bretton Woods: Essays in Honour of Gerald K. Helleiner* (London: North South Institute / Macmillan Press, 1997), p.86.

PRSP country. An interim-PRSP was produced quickly in order to maintain access to structural adjustment lending and involved little public participation.[51] The Bank and IMF approved the interim-PRSP but their Joint Staff Assessment included a number of issues that had to be addressed in the full PRSP, whilst many of the issues they identified were poverty focused and undoubtedly important, the point is that the Bank must approve PRSPs. Further, they do not necessarily form the basis of its lending program, rather this remains the role of the Country Assistance Strategy.[52]

The GoV had a relatively strong degree of ownership of the full PRSP, renaming it the Comprehensive Poverty Reduction and Growth Strategy (CPRGS).[53] Released in May 2002, it involved significant consultation with various levels of government, some local NGOs, international NGOs and donors.[54] The World Bank "mobilised an immense effort to facilitate the process," following it at every step and ensuring that research could be transformed into policy.[55] An evaluation of the overall partnership process concluded that, despite the high level of ownership, the CPRGS had little impact on GoV policy making and the document remains "unknown at the provincial and communal levels, and even foreign to members of the Vietnamese development research community."[56] This obscurity is largely because the CPRGS process was kept separate from the Government's existing planning processes, which involve debate in party cells and mass organisations and approval by the National Assembly. So, on the one hand, this demonstrates that given the GoV's relatively strong control over domestic social forces — its domestic hegemony — the World Bank cannot simply impose the PWC (and *pax americana*). On the other hand, the Bank never fully gives up ownership as it retains control of the lending program through the CAS.

Indonesia voluntarily prepared an interim-PRSP in 2003 and a full PRSP in 2005. However, the process seems to be more obscure and unknown than in Vietnam and it appears to bear little relationship to GoI policy and policy-making processes.[57] Overall in Indonesia, country ownership of Bank lending projects has actually declined since the fall of Suharto, the Bank utilised the crisis to

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[51] Peter Wolff et al., *The Comprehensive Poverty Reduction and Growth Strategy in Vietnam: Process, Donor Contribution, and Prospects for Its Implementation* Report No. 9/2002 (Bonn: German Development Institute, November 2002), p.iii.

[52] Issues the Bank pointed to include improving poverty data and monitoring, sector strategies for addressing poverty, costing and prioritisation of programs, improving the participatory process and increasing attention to vulnerable groups, see ibid, p.24.

[53] The naming point was made during an interview with David Payne, (Hanoi, Vietnam: Co-Director, VUFO-NGO Resource Centre, 12 April 2005).

[54] It is important to note that few of the national or indeed, international NGOs were able to devote the required human resources to the Poverty Task Force, Irene Nørlund, Tran Ngoc Ca, and Nguyen Dinh Tuyen, *Dealing with the Donors: The Politics of Vietnam's Comprehensive Poverty Reduction and Growth Strategy* Policy Papers 4/2003 (Helsinki: Institute of Development Studies, University of Helsinki, 2003), p.89.

[55] Ibid, p.92.

[56] Ibid, p.23. A point made also by a number of interviewees. Norland, Ca and Tuyen also note the lack of media coverage of the plan, Nørlund, Ca, and Tuyen, *Dealing with the Donors*, p.149.

[57] Rudsi Tagaroa, Email, (Jakarta: GAPRI (Anti Impoverishment Movement In Indonesia), 14 February 2006).

drive major legislative and other reforms (for example, in the water sector) although it often explicitly attempted to do so in such a way that the process seemed to be owned by Indonesia.[58] In reality though, Bank plans have been delayed in the parliament, subject to legal challenges and protested by large sections of 'civil society' — again, hegemony is never uncontested.

The Bank still chairs the donor coordination group for Vietnam — the Vietnam Consultative Group — and only gave up the chair of the Consultative Group for Indonesia in 2005 after local NGOs pointed out the anachronism of having the Bank as chair in the supposed age of country ownership of its development program. It is also apparent that many of the Bank's projects in Indonesia are predominately prepared by Bank staff not government officials. In Vietnam, the GoV appeared to drive more the sectors and contents of projects. In all countries though, the documents submitted to the Bank's Board — Staff Appraisal Reports, later renamed Project Appraisal Documents — are fully prepared by Bank staff. Whereas it seems obvious that country ownership would mean that recipient countries' themselves prepare the projects — perhaps with an appended appraisal by World Bank staff.

World Bank conditionality is very invasive — it directs project's strategies and their management. Thus, a reduction in conditionality could be considered an indication of the Bank handing over control to recipient governments. In Vietnam the median/average number of conditions did not change between the two case study periods (19/20.9) and in Indonesia there was a dramatic increase in the number of conditions from an average of 15.5 (median 13) in the first case study period to 25.5 (median 24) in the second. Bank conditionality remained very broad in both countries — project manuals, yearly work programs, project staff, sector restructuring plans and a whole range of other items must be undertaken "to the satisfaction of the Bank." The Bank often requires recipient government's to discuss with them their plans for the whole sector in question and sector studies, plans or legislative reviews to be undertaken in line with terms of reference it approves. Conditionality clearly does not always result in the Bank getting its way, nevertheless the case studies provided few indications that the Bank are seeking to reduce their influence in the cause of country ownership.

Role of the State

The PWC theoretically allows space for an expanded view of the role of state in contrast to the Washington Consensus hostility to it. In this view, the state can be a compliment to, rather than competition for, markets. In a weak form, the PWC only suggests a state that provides a good policy

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[58] See World Bank, *Implementation Completion Report on a Loan to the Republic of Indonesia for the Water Resources Sector Adjustment* Report No. 32665 (June 29 2005), pp.35-7.

environment for business, in other words an active, pro-capitalist state.[59] A further step allows more space for state institutions to engage with market imperfections (information and transaction costs). In a strong version, the PWC genuinely engages with the state as an actor; it promotes critical analysis of actors and interests in society and the distribution of power/resources between them.[60] The case studies indicate that Bank lending promotes a weak version of the PWC state framed first and foremost by the Washington Consensus project of limiting the size and scope of state activities — privatising utilities, contracting out other activities as far as possible and limiting expenditures in health, education and social safety nets. Some examples of the role of the state promoted by Bank projects follow.

In Vietnam, the 2004 structural adjustment loan (which was the third in a series of what were called Poverty Reduction Support Credits) included as a condition the number of enterprises registered each month. The Bank justifies this on the basis that "[e]ssentially private sector development is the combined outcome of policy actions in many areas, from financial sector reform to better governance and public administration"[61] — a PWC view of the state as a facilitator of business. In the same series of loans, there are provisions for a redundancy package for workers from restructured or privatised state owned enterprises (SOEs). The package involves a single lump-sum payment and a retraining voucher for Vietnam's non-functional vocational education system. While the package is more generous than Vietnam's Labour Code, it nevertheless represents both a passive approach to the labour market and a very limited approach to social safety nets — a one-off hand-out to individuals responsible for their own development. Equally, in Vietnam the Bank have put much faith and money behind microfinance as a substitute for social safety nets. The point being that the Bank's commercially oriented model of microfinance, which is connected to the promotion of a liberalised finance sector,[62] serves to minimise the role of the state in both welfare and finance, whilst at the same time the Bank promotes the role of the state in facilitating business development.

In Indonesia in the PWC period, the World Bank focused funding on two areas that provide insights into its view of the role of the state there, first community development projects and second, decentralised governance projects. The largest community development activities were the series of loans for *Kecamatan* Development Projects (KDP), indeed these were the largest Bank loans in second case study period.[63] KDP is essentially a community development program providing rural villages funding for local infrastructure, social or economic activities. The interesting aspect of KDP in

[59] Cammack, "What the World Bank Means by Poverty Reduction", p.5.
[60] Wodsak, "World Bank Reform — a Critical Investigation", p.44.
[61] World Bank, *Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Third Poverty Reduction Support Credit* Report No. 28916-VN (May 25 2004), p.17.
[62] Heloise Weber, "The 'New Economy' and Social Risk: Banking on the Poor?" *Review of International Political Economy* 11, no. 2 (2004), p.360.
[63] Lending approvals for KDP as of the end of 2005 totalled US $1,003.2 billion. KDP accounted for 28 per cent of Bank loan approvals in my second case study period, 2000-2004.

relation to the role of the state is that it largely bypasses local and district government whilst creating governance structures that effectively parallel the state without its permanence. It is, in other words, neoliberal governmentalism.[64] The Bank's decentralised governance projects are largely sector specific projects in health, transport and water supply. These projects indicate the Bank sees an opportunity to influence the form and shape of provincial and district governments in precisely the neoliberal terms outlined above.

Conclusion

It is clear from this study that there has been a level of change in the World Bank, influenced in part by it's critics and in part by New Institutional Economics. Beyond the tinkering with the pace and sequencing of neoliberal monetary and fiscal policy and with the role of the state described above, the Bank has, as my study shows but I have not been able to go into detail about here today, given more attention to poverty, social capital (in certain situations), local participation in development programs (in an instrumentalist form) and to decentralisation as a process to increase accountability. Significantly too, the Bank has placed itself at the fore of moral and intellectual leadership in the debate on development. However, the four areas explored here also indicate which components of the Washington Consensus cannot be adapted or modified, these include fundamentals such as promotion of markets and private property, liberalised foreign investment and a continued fiscal restraint on the state. Thus, the Bank has not moved beyond what Paul Cammack has described as the Bank's:

> constant commitment to the *systematic transformation of social relations and institutions in the developing world, in order to generalize and facilitate capitalist accumulation on a global scale, and build specifically capitalist hegemony through the promotion of participation and ownership*.[65]

In other words, the World Bank's Washington Consensus and PWC are expressions of *pax americana*.

The PWC is thus not a systemic transformation, rather it is a short-term conjunctural project to deepen and extend the hegemonic control of *pax americana*, done by reconfiguring the Bank's mission from one predominately focused on reshaping the economic structure of recipient countries to a project of reshaping social, political and economic relations. The Washington Consensus did not live up to *pax americana's* needs in promoting countries not just sympathetic to it but able to support its existence politically, socially, economically and militarily. This revised mission required new tactics. The Washington Consensus mission enabled the Bank to more or less rely upon economic coercion during the 1980s. The post-Washington Consensus focus on political and social relations requires increasing

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[64] On KDP governmentalism see Tania Li, "Government through Community: The World Bank in Indonesia," *Invited Paper for the Hauser Colloquium: Globalization and Its Discontents* (New York University School of Law: 2005).
[65] Cammack, "What the World Bank Means by Poverty Reduction", p.3., author's emphasis.

reliance on more consensus-based strategies, in particular a leading role in moral and intellectual leadership of development discourse and practice.

Not surprisingly, the Bank's adoption of these tactics and roles has not always been complete or successfully implemented. In the analysis of how the PWC translates to lending practices, it is possible to see some of the gaps, inconsistencies and problems and to utilise these to challenge the Bank's activities. Equally, the case study approach indicates the way in which domestic 'historic blocs' interact with the Washington Consensus and PWC agendas. In Indonesia, the Bank was tied to the Suharto regime and seemed to accept its nominal pro-Western and capitalist stance as genuine. This tempered its tendency to adopt a coercive economic program and ultimately assisted the New Order's self-enrichment. In the PWC period, the Bank has more doggedly pursued a transformative agenda in economics, politics and social order and it has utilised both economic coercion and consensus-based tactics to do so. In Vietnam, confronted by a strong, coherent yet less liberal state, the Bank has ultimately adopted essentially consensus-based strategies, attempting to slowly modify the moral and intellectual terrain of debate.

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