FROM WASHINGTON CONSENSUS TO LISBON AGENDA: WHAT LESSONS FOR ECONOMIC MODELS IN ROMANIA?

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Abstract: *The path from command to market economics in Romania has been marked by two decisive conceptual clarifications at international scale, from the 1989 Washington Consensus to the 2000 Lisbon Agenda. In both cases, it was about a "how-to" policy list supposedly conducive to better economic performance. Prescriptions from both lists were integrated in national programmes, but doubts still persist as to the configuration of the right policy measures. This material discusses the context and practical implications of the two theoretical models.*

Key words: *economic theory; development; European integration; competitiveness*
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Introduction

Romanian authorities and intellectuals of the economics community seem to be on an endless search for economic models to support their reform agenda. No sooner had they left behind the Marxian economics that they had to embark on the so-called *orthodox* or *market economics* and *economics of transition* became a fashionable if ostentatious (Bal 1997: 25) way of thinking about the transition to a market economy in Romania. The path from command to market economics has been marked by two decisive conceptual clarifications at international scale. First, it was in 1989 the manifesto of a group of financial institutions based in Washington which proposed a set of reform policies for Latin American countries, later extended to developing countries as a whole. Second, it was in 1999 the decision of the European Union (EU) to launch a programmatic initiative leading to increased competitiveness for its member countries, currently known as the Lisbon Agenda. Between those very milestones, Romania suffered a radical change in its historical evolution, leaving behind a Communist regime in 1989 and becoming a candidate country for integration into the EU by the end of the decade.

Economists came to realize that the standard precept provide no recipe to smoothly overcome the economic and social difficulties of the transition. The right path to development looks rather like a moving target. It is symptomatic for this intellectual conundrum to see how the sympathy swings between the remarkable achievements of the Scandinavian countries which epitomize a social market economy and the Lisbon Agenda, the European Union's blueprint for becoming "the most competitive and dynamic knowledge-based economy in the world" by 2010, which is praised for its explicit support in emulating the economic liberalism of such competitive economies as the U.S. or Japan.

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It is the message of a need for revamped theoretical arguments in economics which this article attempts to convey. This material comes out with a view to discerning between vagueness and relevance of the economic science that could provide a critical investigation of the economic foundations of contemporary society. The result is based on a discussion of the two theoretical models and consists of a construction which calls into question the tendency of the economic method to try and explain all economic phenomena by using the same catch-all theories and dealing in universal truths.

A decade (1990-2000) of conceptual clarifications and the aftermath

This material concurs with the products of a large variety of schools of thought exemplified *inter alia* by Beaud (1996) and Fullbrook (2004) - which direct their criticism to the way economists try to understand their object of study. The obvious discontent surrounding the methodology of economics has led respectable academic establishments like Harvard University to offer alternative undergraduate courses on economics which discard the classical postulates of rational behaviour and are deemed to suggest "a clearer understanding of the basics of economics" (The Economist 2003). However, this kind of academic initiatives alongside with disparate but systematic research applied in the field of the philosophy of economics and social sciences have not succeeded so far in suggesting a coherent alternative to the dominant methodology based on the deductive and inductive logic. What is usually proposed and so far widely accepted as a credible choice of inquiry rests on a combination of various theories to analyze different economic phenomena and systems plus a mandatory recourse to the historical context.

In spite of the widespread use of mathematics and statistics, empirical studies and economic theory often appear not to live up to the economists' ambitions to provide a consistent body of knowledge. Theoretical reference points become confused in prominent themes of research as the debate elsewhere (Cojanu 2003) reflects it, are severely weakened by the underlying mathematical apparatus (see McCloskey and Ziliak 1996), and supporting arguments are surprisingly put forward by a Nobel laureate and mathematical economist in Stiglitz (2003). The ensuing discussion exemplifies those theoretical ambiguities as these are embodied by the two of the most representative products of the economics community.

The Washington consensus

The year of 1989 transformed the economic history by two defining moments. One is the fall of the Berlin Wall which symbolically marks the turning point from Communism to capitalism in Eastern Europe. The other is represented by the initiative of a so-called group of Washington-based international financial institutions (IFIs) to put forward a paper - the *Washington Consensus* - containing ten policy recommendations believed to provide Latin American countries a way out of the downturn of the 1980s. The circumstantial coincidence made that the latter soon became a guiding policy set to deal also with the unknowns of the transition to a market economy. It was neither the only fitting theoretical construct theories such as supply-side economics, monetarism, or

minimal government enjoyed much respectability nor supposedly the most dominant (see Bal 1997: 25-31), but it is its encompassing coverage of the economic policy dilemmas which ensured it rather a different role, that of a prototypical representation of standard policy prescriptions.

John Williamson (2006) credits himself with the fatherhood of the scheme and confesses that the ten reforms advanced at the core of the *consensus* (see Table 1 at the end of this section) were deliberately proposed "to provide a common set of questions on which the authors of the country papers could focus." It was thus proposed a version of the positive economic theory centred around, basically, macroeconomic discipline, market liberalization, and globalization. The solution was soon embraced by the IFIs for the developing world as a whole, including the evolving transition of the former European communist countries. The evidence of "modest" economic growth in the first targeted region (Latin America), as well as of general "discontent" of global ready-made medicines (Stiglitz 2003) led economists to question whether the policy changes were a mistake and to advance a series of additional policies giving in fact rise to an *augmented* consensus (see Table 1). There are two strands of criticism worth discussing.

There was first admission of guilt on behalf of the proponents in the sense of neglecting crucial circumstantial facts or taking the clarity of concepts for granted relevance for economic problems which more often than not were conducive to unjustifiable misinterpretations. It is somewhat ironic for the pretensions of the standard economics establishment to see its approach mired in allegations of "naïve optimism" of the "experiments set up in ivory towers" (Van Brabant 1998).

There were however some concrete contentious issues such as the objective of "financial liberalization". In Williamson's words, that thinking referred only of domestic liberalization, and did not include capital account liberalization. The IMF policy prescriptions nevertheless included the very latter which allegedly engendered the Asian crisis of 1997 in spite of "persuasive evidence" (Williamson 2006) that inward foreign direct investment, and inward portfolio equity investment, increase growth, but not complete opening including the free inflow and outflow of short-term loans - accelerates growth.

Other issues were simply overlooked. Indifference to issues of income distribution on behalf of both the World Bank and the IMF (Williamson 2006) was replaced by a thoughtful approach to such problems as governance and corruption, or the standards and codes of a properly functioning financial sector. The bleak perspective of recurrent and widespread crises changed the view on macroeconomic policy to a range of policies e.g. counter-cyclical fiscal policies, accumulating a stabilization fund when exports are cyclically strong, avoiding excessive capital inflows when capital is available, and avoiding currency mismatching that paid attention to circumstantial rather than standard evolutions.

Then there was outright dissatisfaction with the apparent inability of standard economics to provide helpful solutions to ongoing economic needs. The fact that it has become associated with several of its prominent exponents makes the case the more so compelling. Dani Rodrik (quoted in Williamson 2006) replaces the mantra of *liberalization* with

that of *institutions*: "what development needs is not a cookbook, nor a description of what advanced countries look like, but, rather, a strategy for kick-starting growth and a series of institutional reforms that will keep a country growing." Stiglitz (2003: 126) goes further and rejects the idealism of a *market* mechanism altogether: *"the consensus policies ... were based on a simplistic version of the market economy, the competitive equilibrium model, in which Adam Smith's invisible hand works, and works perfectly. Because in this model there is no need for government that is, free, unfettered, 'liberal' markets work perfectlythe Washington Consensus policies are sometimes referred to as 'neo-liberal', based on 'market fundamentalism"*.

In this context, the pointless debate over shock therapy versus gradualism measures was readily disposed of. It was instead substituted by an ambiguous terminology about *efficient institutional mechanisms*: "It is important to understand that [institutions] do not imply the state's withdrawal from an economic role: rather, the state's role must change to one that will support the market, rather than seeking to replace it." (Williamson 2006)

The Lisbon Agenda

The Lisbon Agenda (LA)'s elusive rationale as an instrument to propel competitive growth within a nascent currency union has been tackled elsewhere (Cojanu et al. 2006) and this section draws only on the point addressed therein as to its strategic liability to exhibit the perennial economics problem of identifying the "right" structural reforms.

The launch of the LA at the 2000 European Council in Lisbon with the view to making Europe an exemplar of competitive performance was preceded by an upsetting revelation: the decline of the EU competitive position vis-à-vis the US, had been a fact that overshadowed the accomplishments of the European integration for decades. The initial formulation was one of great ambitions: the strategy commits Member States to the goal of making the EU "the most competitive and dynamic knowledge-based economy in the world". There were thus defined four pillars of the strategy - "growth", "innovation", "employment" and "social cohesion", and if one translates "sustainable economic growth" into an "environmental dimension" - a decision in fact explicitly made at the 2001 European Council in Göteborg the LA set the EU on a five-pronged competitive track. The LA mid-term review in 2005 apparently refocused the target on a much narrower objective, the strategic goals of "growth" and "employment", but they multiplied at the Community and national levels in ten and three, respectively, distinct dimensions considered to be critical for competitiveness. The "obsessive" character of this quest for competitiveness determinants engendered a continuous redefinition of what is "critical" and resulted in loose interpretations of what LA actually means. Table 1 gathers one of the most representative lists of the LA targets.

The range of possible interpretations of LA targets raises a legitimate question: Does the LA really stand for a guideline to achieve a coherent strategy for competitiveness? The EU administration picked up the goal of creating a "knowledge economy" amidst a world-wide euphoria about the benefits of the "new economy" which was by that time epitomized by the *.com* boom. The tone watered down since and more recent documents (e.g. Commission, 2005) praise the importance of traditional manufacturing industries.

Discussions with Commission officials (quoted in Cojanu et al. 2006), in fact revealed that the initial theoretical underpinning had to rely on common sense and on consensus prescriptions from international organisations, rather than on a set of *ex ante* priorities and a methodology for dealing with the complex nature of competitiveness of an economic zone. One implication becomes obvious and refers to the analytical ambiguity associated with evaluating the "success stories" of countries of commending competitive performance.

This analytical issue could certainly be avoided if the EU's attempt to deal with structural economic liabilities of its member countries paid due attention to parallel international efforts made by such organisations as IMF, OECD, and WTO. Given that all EU countries belong to those institutional arrangements, one may reasonably ask to what extent the LA should not be regarded just as an undertaking in duplicate. What makes indeed the EU Lisbon process different from all those analytical evaluations consists of its goal of embarking at the same time on the misleading task of indicating *the right venue towards competitive upgrading* as well. From an analytical standpoint, this strategy fails on the ground that it gets the observer confused about the existence of any critical determinant of competitiveness, be it "information technology", "employment" or whatever. If one follows two assessments (quoted in Cojanu et al. 2006) of competitive standing of Sweden and Finland between 1999 and 2003, it is disconcerting to find out that their march from bottom to top in the competitive hierarchy of European countries in such a short period of time is explained by the mere refutation of the "ultra liberal Anglo-American" economic model, that is the very one whose success the AL was supposedly conceived to emulate.

To sum up, Table 1 below presents a synoptic view of the theoretical models hitherto discussed. Both were intended from the very beginning to provide a standard way of thinking about economic policies and/or structural reforms and both failed to withstand the challenges of real world competition. The difficult task of making good sense of their prescriptions resides in the multi-faceted perspective on economic policy reforms which hardly be singled out in one however good list. The circumstantial observations of economic facts may require, for example, simultaneous implementations of reformsmarked by simple underliningor step by step measures on an unpredictable pathdouble underlining.

Table 1: Target areas of the Washington Consensus and the Lisbon Agenda

The original Washington Consensus	*The augmented Washington Consensus*	*Lisbon Agenda*
♦ Fiscal discipline ♦ Reorientation of public expenditures ♦ Tax reform ♦ Financial liberalization ♦ Unified and competitive exchange rates ♦ Trade liberalization ♦ Openness to FDI ♦ Privatization ♦ Deregulation ♦ Secure property rights	♦ Legal/political reform ♦ Regulatory institutions ♦ Anti-corruption ♦ Labour market flexibility ♦ WTO agreements ♦ Financial codes and standards ♦ "Prudent" capital-account opening ♦ Non-intermediate exchange rate regimes ♦ Social safety nets ♦ Poverty reduction	♦ Single Market ♦ Open and competitive markets inside and outside Europe ♦ European and national regulation ♦ European infrastructure ♦ Research and development ♦ Innovation and sustainable use of resources ♦ European industrial base ♦ Employment and social protection systems ♦ Adaptability of workers and enterprises and the flexibility of labour ♦ Human capital through better education and skills

Sources: Williamson (2006); Commission (2005).

Concluding notes

What are the lessons of this package of good intentions and questionable execution? What could all this mean for competitive development of Romania? The results of scholarly work point to divergent solutions as to the suitability of all-encompassing prescriptions. At least two general principles of action should be observed in line with that conclusion.

First, it should be noted that the recourse to policy reforms should come as a consequence of national initiatives and definition of priorities and not the other way around. Understanding what happens within national or regional economic spaces is not primarily linked to whatever yardsticks of idealized behaviour, but to a familiarity of that environment's development needs.

Second, the governments should be aware that reform is about programmes and priorities which should not take anyway the course suggested by a model. If a proper rationale is to be found, a country should take then benefit from similar initiatives and/or experiment in line with its historical experience. For a practical agenda, this imperative implies reaching a twofold target of counteracting the challenges of both international competition and local needs. The capacity to react is based on such diverse economic mechanisms as absorption of macroeconomic shocks, productive impact of macroeconomic policy, and particular cultural attitudes in production and consumption (propensity to invest and save).

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