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From 'Washington Consensus' to 'Istanbul Decisions': Where do we go?

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1. World Bank and International Monetary Fund (IMF) 2009 Annual Meetings held in Istanbul were concluded with "Istanbul Decisions". The decisions emphasized that the first global crisis the world witnessed has been changing permanently the operation and approach of the World Bank and the IMF. Taking a look at the document on Istanbul Decisions presented in the IMF web site, one can observe that the term "competition", frequently seen in old documents, is now replaced with the word "cooperation". This policy therefore, aims to shed light on the following questions: Then, how must the intention revealed with Istanbul Decisions be evaluated? Is it possible to realize this intention? Is the decision to increase the quota shares towards developing countries enough to realize the intention manifested itself in Istanbul decisions? How should Turkey assess the issue?
2. To begin with a question; did Istanbul Decisions change the old operation for the globalization process and economic policy paradigm called as "Washington Consensus" coined at the end of 1980s by John Williamson?¹ Not yet. According to this, before the 2008 crisis policy framework recommended by core to the peripheral countries trying to adjust to the process of globalization could be summarized with the instructions "Stabilize", "Privatize", "Liberalize". This approach fed by "neoliberal" economic thought also had some defects. First was the one-direction transmission of instructions from the core to periphery and the participation problem in the governance of the globalization process considering democracy. Beyond this, the referred global system reflected to a large extent the interests and desires of World War II winner countries. Second defect was that the recommendations communicated to the periphery were mainly built upon the liberalization of markets and focused on the minimization of public intervention in the markets under any condition regardless of its context. Third, a single growth formula was recommended for all countries. However, countries differed. In the aftermaths of the crises of 1990s, defects of the mentioned Washington Consensus started to be discussed widely. For instance, this was exactly what the World Bank report of "Economic Growth in the 1990s: Learning from a Decade of Reforms"² published in 2005 did; guardians of the globalization process were voicing their discontent with the course of the process. However, the rapid economic growth the world enjoyed in the 2002-2007 period masked the structural problems of the global system. Along with the 2008 crisis, on the other hand, discussions on the reformation of the process exacerbated.
3. In the article (January 2006)³ "Goodbye Washington Consensus, Hello Washington Confusion" Dani Rodrik, famous with his criticisms on the problematic global system, basically argued that

¹ Please see Williamson, John (1989) "What Washington Means by Policy Reform", *Latin American Readjustment: How Much has Happened*, Institute for International Economics, Washington.

² Please see World Bank (2005) "Economic Growth in the 1990s: Learning from a Decade of Reforms", World Bank, Washington.

³ Please see Rodrik, Dani (2006) "Goodbye Washington Consensus, Hello Washington Confusion", *Journal of Economic Literature*.

there no longer is a Washington consensus, and that the main issue at this point is to decide what will replace it. In the meanwhile, a global crisis, a series of G-20 meetings and the “Istanbul Decisions” announced last week in Istanbul by IMF Director, allowed us see the ongoing discussion in all its clarity. As a result of all, it started to fall into place how the new approach pertaining to the future and the governance of the globalization process will be shaped.

4. Lessons from the 2008 crisis are quite determinant of the ongoing discussions. Therefore, it will be beneficial to put emphasis on the question “What lessons about the globalization process must be learned from the 2008 crisis?” First lesson is related with the fact that the source of the crisis should not be confused with the fashion in which the crisis spread. Unlike what is being discussed again and frequently nowadays, 2008 did not originate from global financial imbalances; i.e. from the imbalances stemming from high current account deficit and low savings rate of the USA and the high current account surplus and high savings rate of China. 2008 crisis was driven by the regulatory gaps in the financial markets of developed countries. As a result, source of the first global crisis of the world is not peripheral but core countries.
5. Second lesson to be learned is related with the outcomes of the global crisis. Through the crisis emerged from developed countries, all countries pays the cost together in particular through the rising unemployment rate. The damage caused by the public regulation weakness in developed countries was borne not only by people living in developed countries but also in developing countries. As a result of rapid evaporation of global trade and financial flows, unemployment turned into a global problem and poverty elevated.
6. Third lesson contains finding about the post-crisis policies of the IMF and the World Bank. After the crisis, IMF in particular stepped in immediately to compensate for the damage facing developing countries. Since the damage in the global system is caused by developed countries, the compensation mechanism must be expected to finance by them. In this context, especially the IMF assumed a leading role and made effort to compensate for the damage stemming from disturbed balances. These are steps in the right direction, though not sufficient. In this sense, IMF deserves appreciation as well as criticisms. IMF deserves appreciation for stepping in quickly to compensate for the prevailing damage after the crisis for the countries in the severest condition. Nonetheless, the Fund must also be criticized for not taking/failing to take the precautions aiming at the regulatory weakness in developed countries. Given that it originated from blatantly accumulated risks, the global crisis must be considered a black mark in terms of the performance of the IMF as well as other international organizations.

7. Two points in the criticism voiced above must be taken into account: First, IMF and international institutions act more sensitively against the accumulated risks in developing country economies whereas they approach more tolerantly to those in developed country economies. Second, even if IMF and other international institutions try to determine and approach on the accumulated risks, they do not have the power to make developed countries stick to their recommendations though they can influence the decisions of developing countries. Such asymmetrical power and influence structure leads to a severe unbalance in the global system pushing up the risk for facing global crises.
8. The reason why the IMF and other international institutions remains weak in front of economic administrations of developed countries is related with the governance structure of the mentioned institutions. At the core of the current governance structure lie the type of finance and the voting rights representing it. Though it is sad that “who pays the piper calls the tune”, this in fact constitutes the foundations of the Washington Consensus. Globalization process the way for which was paved by the Washington Consensus represents the perception of governance unique for the 20th century. Over the last period, the IMF and other international institutions assumed the economy policy coordination in countries that decided to adjust to the globalization process, while also shaping it to a large extent.
9. However, in the 21st century where globalization ties together a substantial part of the world, the need for a more participative and democratic globalization approach becomes apparent as well in the light of all these experience, good or adverse. The success of the policies in the past necessitates the adoption of a new governance approach. 2008 crisis just accelerates this process of change. In the coming period, the IMF and other international institutions must take a more active role in the economic policy coordination of developed countries as well as developing countries. This is the prerequisite for preventing new crises similar to the 2008 crisis. The model tested through the G-20 platform must basically be considered as the first signs of this new approach. Istanbul Decision contains the signals of this new globalization approach. Nonetheless, it must be underlined that the signals alone are not enough; there is a need for actions along with promises.
10. IMF’s turning towards a more democratic structure in decision making processes is in fact a result of the changes in the shares of countries in world economy. This global change is reflected by total production level of G-7, composed in the first half of 1970s with the participation of France, Germany, Japan, USA and United Kingdom which was joined by Italy in 1975 and Canada in 1977. The fall in the share of G-7 countries in world’s production from 76 percent in 1980s to 68 percent in 2008 emphasized the importance of the G-20 platform which represents a larger part of the world economy (Please see Table 1). For instance, Japan and European Union in G-7

lost share in production in 2008; whereas South Korea, China, India and Turkey in G-20 have been increasing their shares since 1980s. USA on the other hand only managed to maintain the 1980 level in 2008. Therefore, in the coming period indicator for the success of the new system will be the operation of a coordination and consultation mechanism between the IMF and the G-20 platform.

Table 1. Share of Member Countries in World Production

	1980	1990	2000	2005	2008
G-7	76.0%	76.5%	73.8%	71.0%	68.3%
G-20	87.7%	90.3%	89.8%	89.1%	88.5%
European Union	29.1%	28.1%	26.4%	25.2%	24.5%
USA	28.8%	29.2%	30.5%	29.9%	28.8%
Japan	15.7%	17.0%	14.6%	13.6%	12.8%
China	1.0%	1.8%	3.7%	5.2%	6.5%
South Korea	0.7%	1.2%	1.7%	1.8%	1.9%
India	0.9%	1.1%	1.4%	1.8%	2.0%
Turkey	0.6%	0.8%	0.8%	0.9%	1.0%

Source: World Bank World Development Indicators, TEPAV calculations

- In this context, changing of the share of votes in the IMF in the advantage of developing countries is a positive yet insufficient step in the right direction. Changing of the composition of votes upon extensive discussions implies that the steps that must be taken are acknowledged. However, unless the decision making processes within these institutions are completely democratized and these institutions become completely independent from developed countries, it will not be possible to take quick steps toward solution. IMF and other international institutions must be granted an independent global authority status and decision making processes must be freed of the direct supervision of developed countries. Replacement of the International Monetary and Financial Committee (IMFC), currently the main consultation body of the IMF, by G-20 as a democratic decision making mechanism is of great importance with respect to the legitimacy of the new role IMF seeks to undertake.

12. Istanbul decisions must be evaluated in this exact framework. Istanbul Decisions confirms that correct lessons are learned from the 2008 crisis. The Decisions are comprised of four main categories. First, IMF' mandate is reviewed. According to this, IMF will now monitor a much wider area in economic policy coordination. To maintain global stability, macroeconomic and financial market policies will be monitored more closely.
13. The second policy area coming to forefront in Istanbul Decisions is the enhancement of IMF's role in international finance. In this regard, development of the flexible credit line as a less conditional facility, in addition to the old funding mechanisms of the IMF; and the assumption by the IMF of the insurer role as the lender of last resort) appear on the agenda. IMF tries to develop new methods to fill in the gap created by the tightening of international fund flows. As can be noted, not only transition period measures are implemented, but the cost of accumulating reserves in the globalization process is tried to be reduced. It is obvious that accumulation of reserves as an insurance against sudden halts in global fund flows both makes developing countries waste funds as it causes their funds to be invested for lower returns, and contributes to financial unbalances.
14. Third policy decision is about multilateral monitoring of international economic policies. In line with the recommendation of G-20, IMF will construct a mechanism for mutual evaluation of national policies. In this context, it will be easier to create wide-spread awareness about the measures implemented by national authorities, in relation with global policy coordination. However, the mechanism of this mission waits to be defined in more detail. The path heads toward a stability-oriented global policy coordination. This puts great importance on the democratization and independence of the IMF. It should be kept in mind that IMF can fulfill this job only if its democratic legitimacy is established.
15. Fourth issue Istanbul Decisions touch upon is the reviewing of IMF's governance structure. Here, the fundamental points are participation and democratization of IMF's governance structure. It is on the agenda to give greater voice to and ensure higher participation of emerging market economies and developing countries in decision making processes. In the context of the G-20 decisions, it is decided to expand the distribution of shares in the IMF from the core to periphery until January 2011. To this end, share of peripheral countries in the IMF will be increased by 5 percent while that of developed countries will necessarily be reduced.
16. Establishment of a new governance structure for the IMF and other international institutions is not only a requirement driven by the lessons from 2008 crisis; it is also required to ensure the

legitimacy IMF needs to carry out the new responsibility assigned by the G-20 Pittsburgh meeting decisions and Istanbul Decisions. Istanbul decisions classified under four main titles requires the modification of the governance structure of international institutions; democratization of these institutions; and making of the decision making process independent from developed countries. Istanbul Decisions prove that comprehensive and correct policy lessons have been learned from the 2008 crisis. Turkey should follow these decisions in the G-20 platform. Greater the voice of countries like Turkey; higher the legitimacy of the globalization process and IMF will be. Istanbul Decisions are highly important both for the future of the global system and for the position of Turkey in the new global system.