

Development in the 1990s

By Enrique R. Carrasco

In Part Two of the E-Book, we will describe the changing conceptions of development in the 1990s, especially as they relate to the IMF and the World Bank (the Bretton Woods Institutions, or BWIs). You will learn about the criticisms directed at the BWIs on their 50th anniversary in 1995. The E-Book will then describe the BWIs' responses to their critics. You will also read about the impact of non-governmental organizations (NGOs) on the development policies of the BWIs and member countries. In the last section of Part Two, we will describe the latest wave of development policy—the BWIs' programs to eradicate government corruption and promote regulatory transparency.

Here we will use three themes to "set the stage" for the remaining readings in Part Two of the E-Book. In the first part, we will describe the emphasis on "market-friendly" development in the 1990s. The second part will describe the "growth with marginalization" phenomenon that policymakers must face in an era of globalization. In the final part of this section, we will define "social development," a rich concept of development that only faintly resembles earlier definitions of development based largely (or solely) on economic growth. These three themes inform the changing conceptions of development and the work of the IMF and the World Bank in the 1990s.

A. Market-Friendly Development

As you read this Part of the E-Book, keep in mind that by 1995 much of the world had embraced market-based reforms. This was due in large measure to reforms implemented after the 1980s debt crisis and to the disintegration of the Soviet Union and the socialist bloc in Eastern Europe. Policymakers commonly referred to market-driven regulatory frameworks as "market friendly" policies. Both the World Bank and the IMF have played salient roles in developing such policies and promoting their use around the world.

1. Market-Friendly Policies De-emphasize the Role of the State and Promote Efficient, Long-term Growth.

Market-friendly policies typically emphasize non-inflationary growth, fiscal discipline (i.e., wise government spending), high savings and investment rates, trade and foreign investment liberalization, privatization, and domestic market deregulation. Unlike the

development models adopted in many regions of the world after World War II, the approach to development in the 1990s was based on a much smaller role for the state. Policymakers argued that while the state must perform functions that the private sector cannot or will not perform, such as maintaining a functional legal system, it should not involve itself heavily in the market. Instead, the government should promote development via the activity of private actors in the marketplace. According to supporters of market-friendly policies, this type of framework is economically efficient, meaning among other things that more wealth will be created in the long-run. (How that wealth is distributed is another matter.)

The market-friendly framework of development eventually became associated with the "Washington Consensus," a term coined by John Williamson. He identified a set of reforms he believed policymakers in Washington could agree were needed in Latin America:

- Fiscal discipline in order to combat deficits that led to balance of payments crises and high inflation.
- Reordering public expenditure priorities to target the poor.
- Tax reform to broaden the tax base with moderate marginal tax rates.
- Liberalizing interest rates in the context of a broader financial liberalization.
- A competitive exchange rate.
- Trade liberalization.
- Liberalization of inward foreign direct investment.
- Privatization of state-owned entities.
- Deregulation of the economy to ease barriers to entry and exit.
- Property rights for the [informal sector](#).

The Washington Consensus was based on three orthodox (broadly accepted in developed countries) concepts: (i) macroeconomic discipline, (ii) a market economy, and (iii) openness to the world in the context of trade and foreign direct investment. The policies

that constituted the Washington Consensus were intended to combat the "global apartheid" perspective, which claimed that developing countries were not part of the orthodox economic world, but rather pursued a model of development that included inflation, a leading role for the state in industrialization, and import substitution.

2. The Market-Friendly Approach to Development Encourages Legal Reform.

Market-based reforms and democratic movements in transitioning countries and other regions of the world revived interest in the "law and development" field. For example, market-based reforms in Latin America prompted policymakers and experts to focus on the following problems, among others, with the region's judicial systems: a lack of judicial independence; severely overloaded court dockets; opaque, unpredictable, and protracted judicial proceedings; inadequate legal training; and inaccessibility (i.e., people have difficulty using the courts to resolve disputes). Emphasizing the importance of good governance, observers noted that market-based reforms and democratic systems would not be sustainable without reforming judicial systems and revising outdated legal frameworks. Since 1990, the World Bank has used its mandate of promoting economic development (particularly facilitating investment) to become more broadly involved in legal and judicial reform.

B. Growth with Marginalization

Another theme of the 1990s to keep in mind is what I have called "growth with marginalization" (a play on the well-known phrase, "growth with equity"). The term captures a paradox of development that no one has been able to solve, namely, the simultaneous processes of wealth creation for some people and wealth depletion or, more significantly, increased poverty for others.

1. Many Believe the BWIs have Helped People Lead More Prosperous Lives.

Many people believe the World Bank and the IMF (as well as the international trading rules called the General Agreement on Tariffs and Trade) are at least partly responsible for the tremendous growth in world trade and income since the 1940s. A good number of us consequently lead prosperous lives, at least when measured in aggregate economic terms.

Dynamic economic growth, in turn, has considerably changed the global economy and international financial institutions. According to some observers, the collapse of the par

value system in the 1970s and the debt crisis of the 1980s have converted the IMF into a development institution, with global monetary policy being set by the G-7. The World Bank is now the primary multilateral institution devoted to development and the eradication of poverty in developing countries. Also, the Uruguay Round of trade negotiations has led to the creation of the World Trade Organization (WTO), which administers an expanded corpus of multilateral rules covering trade in services, trade-related aspects of intellectual property rights, and trade-related investment measures. All three institutions are operating in an era of increased globalization, which creates tremendous opportunities for developing countries—and equally tremendous dangers.

2. Yet in the 1990s We Witnessed Increased Poverty, Unemployment, and Social Disintegration.

In the 1990s, policymakers were presented with many great challenges to development. Some were especially daunting. Increased poverty, unemployment, and social disintegration have accompanied globalization. More than one billion people lived in poverty and the gap between the rich and the poor widened, both within countries and between them. Approximately 730 million people around the world were unemployed, underemployed, or working poor. These ills resulted in isolation, marginalization and violence, particularly with respect to vulnerable groups.

C. Social Development: A Rich Concept of Development that No Longer is Based Solely on Economic Growth

The process of "growth with marginalization" prompted the United Nations to sponsor the World Summit for Social Development in Copenhagen, Denmark. Held in 1995, the Summit's purpose was to develop a "new organizing concept" to address a post-Cold War world that has failed to fulfill liberalism's universal promise of peace and prosperity. The deliberations focused on three core issues relating to Article 55 of the U.N. Charter: (i) the alleviation and reduction of poverty; (ii) the expansion of productive employment; and (iii) the enhancement of social integration, particularly of the more disadvantaged and marginalized groups.

The Summit embraced a definition of development thickened by forty years of experience. Under a people-centered framework of social development, the governments urged a political, economic, ethical and spiritual vision for social development that is based on human dignity, human rights, equality, respect, peace, democracy, mutual responsibility and cooperation, and full respect for the various religious and ethical values and cultural

backgrounds of people.

This vision of development is participatory, calling for the full participation of people in formulating, implementing and evaluating decisions relating to the functions of their societies. In sum, the Summit envisioned an "enabling environment for social development," i.e., "an economic, political, social, cultural and legal environment that will enable people to achieve social development."

While recognizing that social development is primarily the responsibility of states, governments at the Summit acknowledged that the interdependent global community in the 1990s required the positive contribution of many other actors in the international community, including multilateral financial institutions such as the World Bank and the IMF.

D. The Millennium Development Goals: An Ambitious Development Agenda

This theme of interdependence was carried over into the creation of the Millennium Development Goals (MDGs), the product of the Millennium Summit that took place in September of 2000. The MGDs are a distillation of development goals identified at various international conferences and summits during the 1990s. These goals were set forth in the Millennium Declaration, a document authored by world leaders. A product of the United Nations Development Programme, other United Nations departments, the World Bank, the International Monetary Fund, and the Organization of Economic Cooperation and Development, the MGDs include eight goals, eighteen targets, and forty indicators. The MGDs, to be achieved between 1990 and 2015, include:

- halving extreme poverty and hunger.
- achieving universal primary education.
- promoting gender equality.
- reducing under-five mortality by two-thirds.
- reducing maternal mortality by three-quarters.
- reversing the spread of HIV/AIDS, malaria, and TB.
- ensuring environmental stability.
- developing a global partnership for development, with targets for aid, trade and debt relief.

The MGDs constitute an ambitious development agenda to be achieved within a

relatively short period of time. While they reflect a renewed global commitment to tackle many problematic aspects of development, the MGDs have nevertheless been criticized on a number of grounds, including the claim that they are unrealistic, which will result in discouragement and shame when they are not met.

Leah Badertscher, a UICIFD staff member, contributed to the 2004 update.