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Was Shock Therapy Consistent with the Washington Consensus?

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Williamson proposed the term 'Washington Consensus' to refer to the lowest common denominator of policy advice being addressed by the Washington based institutions. Owing to the considerable confusion about the term, I distinguish between two different versions of the term: the Washington Consensus proper to denote the original set of policies initiated by the father of the term and the Washington Consensus as a neoliberal manifesto to represent the policies identified with the term 'neoliberalism'. It is demonstrated that the Shock Therapy process had some common elements with both versions of the Washington Consensus; however, there were also important differences due in large measure to the differing circumstances in transition economies and Latin American economies.
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INTRODUCTION

Williamson established the term 'Washington Consensus' to refer to the lowest common denominator of policy advice being addressed by the Washington based institutions to Latin American countries as of 1989. The Washington Consensus departs from and rejects what used to be 'orthodoxy' in economic development: import substitution, nationalization, planning, and use of the inflation tax to raise savings. Structural adjustment in Latin

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America had the goal to substitute a traditional statist economic system to a market-based economic system (Williamson, 1990a, p. 402). In spite of this, it has been alleged that the Washington Consensus has been accepted as common wisdom on policies for economic development. The Washington Consensus was applied to structural crisis in other countries, including the transition economies (Cross and Strachan, 2001, p. 182; Kolodko, 1999, p. 4–5). The term, Washington Consensus, has been used as a synonym for what is often referred to as 'neoliberalism' by those who have criticized the program. At the same time that 'Latin America was engaged in its hesitant, controversial, patchy, incomplete, but nonetheless rather widespread attempt to move from the statism to a market economy' (Williamson, 1990c, p. 3), another debate was taking place – which is relevant for our discussion – with regard to Russia, the former republics of the Soviet Union and Central and Eastern Europe. The debate was about of a more radical process of transition from centrally administered socialism towards market capitalist relations. The transition from a centrally administered to a market based economy in these countries was characterized by a substantial reduction in output, increased unemployment, hyperinflation, corruption and illegal activities. It is alleged and being established as common knowledge that these results were due to the implementation of the orthodox policies inspired by the Washington Consensus. These policies were implemented in the form of Shock Therapy under the principle of 'one-size-fits-all' (Cross and Strachan, 2001, p. 187; Kolodko, 1999, p. 4, 22; Stiglitz, 2002, p. 141). The purpose of the paper is to factually determine whether there is any association between the Shock Therapy and the Washington Consensus and hence demystify the relationship between the two strategies for economic development.

It is important to distinguish between the two policy prescriptions the Washington Consensus and Shock Therapy, as the debate on development and transition continues to take place, which would influence the future potential application of both policy prescriptions. The two policy prescriptions have not lost their significance as supporters of either or both strategies continue to argue for their relevance for economic development and transition. Williamson (2003a) continues to insist for the relevance of the Washington Consensus and the 'completion of first generation of reforms'. While at the same time an assessment is taking place on whether Shock Therapy was successful in transition economies and in actual fact whether it was implemented as prescribed: 'Most of the bad things that happened [in Russia]–such as the massive theft of state assets under the rubric of privatization–were directly contrary to the advice that I gave and to the principles of honesty and equity that I hold dear' (Sachs, 2005, p. 147).

There has been a lot of confusion with regard to what Washington Consensus actually means. This is because the term has evolved, via the natural process of debate, discussion, criticism and misinterpretation, to denote a different set of policies than originally subscribed. As such, I distinguish between two different versions of the Washington Consensus, the Washington Consensus proper to denote the original set of policies initiated by the father of the term and the Washington Consensus as a neoliberal manifesto to represent the policies subscribed with the term 'neoliberalism' by its critics. The alternative versions are presented in a schematic form in Table 1.

It is demonstrated that, in actual fact, the Shock Therapy process implemented in transition economies had some common elements with the Washington Consensus proper and some common elements with the Washington Consensus as a neoliberal manifesto. With respect to the remaining elements of the reform process, we can identify important discrepancies in both versions. Hence, the Shock Therapy process in transition economies was not identical to any particular version of the Washington Consensus. The underlying reason for these discrepancies between both versions of the Washington Consensus and Shock Therapy – even though it is asserted and/or assumed that there was direct correspondence between them – can be explained in terms of the differing circumstances between transition and Latin American economies. As the situation was different in transition economies comparing to Latin America, therefore, the associated problems were not a component of the Washington Consensus. As a result there were new elements in the reform process that the shock therapy had to confront and provide an immediate solution for which the Washington Consensus could not provide an answer; nevertheless, there was never the intention of the Washington Consensus to provide such an answer.

Policy-makers and students of economic development and transition would benefit from this taxonomic testing of the alternative versions of the Washington Consensus in conjunction with the Shock Therapy process, revealing effortlessly the association between them. To my knowledge no such testing has taken place and consequently the misconnection of Shock Therapy with the Washington Consensus has prevailed.

The paper is structured in the following way: the second section develops the alternative versions of the Washington Consensus, while the third section develops the Shock Therapy approach implemented in transition economies. The fourth section contrasts the alternative versions of the Washington Consensus with Shock Therapy and the fifth section concludes that Shock Therapy cannot be identified with any version of the Washington Consensus.

Table 1: Washington consensus and shock therapy

Policies	Washington consensus proper	Washington consensus neo-liberal manifesto	Shock therapy in transition economies	Contrasting shock therapy and the washington consensus
1. Fiscal discipline	Small Budget Deficit financed without recourse to inflation tax. Budget deficit no more than 2 percent of GDP	Balanced Budget	Small Budget Deficit financed by foreign aid or Treasury Bill market	Consistent with Washington Consensus Proper however disagreement over foreign aid financing budget deficit
2. Public Expenditure Priorities	Redirect expenditure from administration, defense, indiscriminate subsidies and white elephants to areas with the potential to improve income distribution, such as primary health care, education and infrastructure	Reduce government expenditure	Safety net which causes a budget deficit funded mainly by foreign aid. Eliminate subsidies and reduce public investment	Consistent with Washington Consensus Proper however disagreement over foreign aid financing budget deficit
3. Tax Reform	Broadening Tax base and cutting marginal tax rates without lowering realized progressivity. Improve tax administration and tax capital flight	Overall tax cuts and eliminate taxes that redistribute income and taxes on capital movements	Broadening Tax base by introducing Value Added Tax and income tax. Reduce taxes on profits of firms. No taxes on capital movements	Consistent with Washington Consensus proper on broadening the tax base. Consistent with neoliberal manifesto on no tax on capital movements
4. Financial Liberalization	Abolition of preferential interest rates and achievement of moderately positive real interest rates	Markets determined interest rates and implementation of the monetary rule	Positive real interest rates and implementation of the monetary rule. Establishment of one currency, one independent central bank, and one monetary policy in one currency area	Consistent with the Washington Consensus proper regarding positive real interest rates. Consistent with the neoliberal manifesto regarding the monetary rule
5. Exchange Rates	Unified and managed competitive real exchange to maintain competitiveness	Freely Floating Convertible Currency	Freely convertible pegged exchange rate for the first 2-3 years then floating exchange rate	Consistent with Washington Consensus Proper in the short run and consistent with the neoliberal manifesto in the long run

Table 1: continued

Policies	Washington consensus proper	Washington consensus neo-liberal manifesto	Shock therapy in transition economies	Contrasting shock therapy and the washington consensus
6. Trade Liberalization	Replace quantitative trade restrictions with tariffs of around 10-20%. Gradual reduction of original tariffs	Free trade and immediate elimination of tariffs	Free trade and maintaining low tariff in the beginning of the transition of about 10-15%	Consistent with the Washington Consensus proper
7. Foreign Direct Investment	Abolish barriers to entry for foreign firms and establish a level-playing field for both foreign and domestic firms	Abolish barriers to entry for foreign firms and establish a level-playing field for both foreign and domestic firms	Abolish barriers to entry for foreign firms and establish a level-playing field for both foreign and domestic firms	Consistent with both versions
8. Privatization	State enterprises should be privatized. Against rapid privatization or of voucher privatization	Immediate privatization through vouchers	Immediate privatization of state enterprises. Small and medium enterprises by auction. Large enterprises by vouchers	Consistent with the neoliberal manifesto
9. Deregulation	Government should abolish regulations that impede entry or restrict competition and any remaining regulations are justified in terms of safety, environmental protection or prudential supervision. Deregulation of the labor market	Deregulation of entry and exit barriers and the suppression of regulations designed to protect the environment. Deregulation of the labor market	The removal of any constraints to the achievement of a free market. Tax-based wage policy (Incomes Policy) for the labor market	Consistent with both versions. Inconsistent with both versions regarding to the labor market
10. Property Rights	Secure property rights without excessive costs which are also available to the informal sector	Not a concern	Gradual development of institutions including property rights as the result of the market process	Consistent with the Washington Consensus proper but only as a result of the market process
11. Institution Building	No Mention	Independent central bank	Independent central bank	Consistent with the neoliberal manifesto
12. Price Liberalization	No Consensus. Free prices or controlled prices	Immediate Price liberalization	Immediate Price Liberalization	Consistent with both versions

THE WASHINGTON CONSENSUS

The Washington consensus proper

In November 1989, the Institute for International Economics convened a conference to investigate what was actually happening with the economic reforms in Latin America. In this conference, Williamson (1990b) found the opportunity for the first time to reveal his new-found term in a paper entitled, 'What Washington Means by Policy Reform?' The papers presented at the conference were subsequently published in a book edited by Williamson entitled: 'Latin America Adjustment: How Much Has Happened?', as such the term Washington Consensus became public knowledge.

'Washington' for Williamson incorporated the International Monetary Fund (IMF), the World Bank, the US executive branch, Federal Reserve Board, the Inter-American Development Bank, those members of Congress interested in Latin America, and the think tanks concerned with economic policy; it is an amalgamation of political, administrative and technocratic Washington. The policies suggested are policies around which 'Washington' could rally something like an accord concerning what countries ought to be implementing; thus the term 'Washington Consensus'. Williamson emphasized that the term, as he conceived it, was in principle geographically and historically specific, a lowest common denominator of the reforms that he judged 'Washington' could agree were required in Latin America, as of 1989, in the first stage of policy reform. Nevertheless, the set of policies recommended had general applicability in other developing countries, because 'in practice there would probably not have been a lot of difference if I had undertaken a similar exercise for Africa or Asia, and that still seemed to be the case when I revisited the topic (with regard to Latin America) in 1996' (Williamson, 1993, p. 1332; 2000, p. 254–5). Thus, the Washington Consensus is the product of 'robust empirical generalizations that forms the core of economics' (Williamson, 1993, p. 1333) about the indispensable economic policies required for economic development. The goal was to convince Washington that Latin America was adopting policies of which Washington would approve. Williamson (1990b, p. 18–9; 1990c, p. 1) summarizes the content of the Washington Consensus as macroeconomic prudence, outward orientation, domestic liberalization and free market policies consistent with classical mainstream economic theory. These reforms could be used as a baseline to judge whether countries, not only in Latin America, have implemented suitable reforms. In the following, I outline the 10 policy instruments of the Washington Consensus based on Williamson (1990b, 1993, 1994).

1. *Fiscal discipline*: The IMF stipulates that borrowing is conditional in the achievement of fiscal discipline. 'Keynesian' stimulation via large budget deficits is intolerable. However, fiscal discipline does not necessarily imply a balanced budget. Deficits are acceptable as long as they do not result in the debt-GNP ratio rising. Any deficit should be the result of expenditure on productive infrastructure investment. Budget deficits properly measured to include provincial governments, state enterprises and the central bank should be small enough to be financed without resource to the inflation tax. This implies a primary surplus (before adding debt service to expenditure) of several per cent of GDP, and an operational deficit (the deficit disregarding that part of the interest bill that compensates for inflation) of no more than about 2 per cent of GDP.
2. *Public Expenditure Priorities*: Expenditure on politically sensitive areas (administration, defense and white elephants) should be substantially reduced since they receive more resources than economic returns justify. Subsidies, especially indiscriminate subsidies (including the financing of inefficient state enterprises) also should be reduced; even better eliminated. The funding of education and health are appropriate objectives of government expenditure, but they are usually underfinanced even though they have high economic returns. Investment in human capital helps the disadvantaged and improves income distribution. Thus, there should not be a complete abolition of all subsidies as long as the remaining subsidies improve either resource allocation or income distribution.
3. *Tax Reform*: Broadening the tax base, including taxing capital flight, and reducing marginal tax rates to moderate levels is recommended. The goal of tax reform should be to increase incentives and improve horizontal equity by maintaining moderate progressivity.
4. *Financial Liberalization*: In the long run the goal should be market-determined interest rates. However, during the initial stages of reform, market-determined interest rates may be too high as to threaten the viability of enterprises and increase the burden of government debt. Thus, real interest rates should be positive and moderate to discourage capital flight. At the same time any preferential interest rates should be abolished.
5. *Exchange rate policy*: A managed competitive real exchange rate is fundamental in achieving an outward-oriented economic policy and to maintaining competitiveness. The balance of payments constraint would be overcome by export growth in nontraditional exports rather than by import substitution.
6. *Trade Liberalization*: import liberalization and abolition of quantitative trade restrictions to reduce corruption are also required for an outward-oriented economic policy. Concerns of infant industries justify strictly

temporary protection. A moderate general tariff (in the range of 10–20 per cent) would also provide a bias toward diversifying the industrial base, without a real substantial cost. Concerns about timing justify a gradual removal of protection. Views differ, however, on whether import liberalization should proceed according to a predetermined timetable of three to ten years (the World Bank view), or whether the speed of liberalization should be endogenously determined depending on the macroeconomic conditions (the Williamson view). Independently of these concerns, the consensus is that there should be a gradual reduction of protective walls.

7. *Foreign Direct Investment (FDI)*: Barriers restricting the entry of foreign firms should be abolished and there should be free competition between domestic and foreign firms. FDI can bring desired capital, skills and know-how and produce goods required for the domestic market or contribute to new exports. Economic nationalism does not have a place in the Washington Consensus.
8. *Privatization*: The main rationale for privatization is the belief that private firms are managed more efficiently than state enterprises due to the direct incentives faced by managers and owners. The lack of a strong indigenous private sector is an insufficient reason to preclude privatization; this can only be justified on grounds of economic nationalism, which is unacceptable. Williamson (1990b, p. 16) is in favour of privatization only if it results in increased competition. Under certain circumstances, when marginal costs are less than average costs, or in the presence of environmental externalities, public ownership might be preferable.
9. *Deregulation*: Governments should abolish regulations that restrict the entry of new firms and/or restrict competition. Regulations might be warranted by such criteria as safety, environmental protection or prudential supervision of financial institutions.
10. *Property rights*: The legal system should provide secure, uniform and low cost property rights available to everyone, even the informal sector.

During the discussion, Williamson (1990b, p. 18) acknowledged that while fiscal discipline is certainly a precondition for controlling inflation, there is the argument that it needs to be supplemented by price and wage freezes and a fixed exchange rate. On the opposite view, which is quite relevant for Shock Therapy in transition economies, price liberalization should be added as a policy instrument to the Washington Consensus.[2] However, since there was no consensus view on this topic, it could not be

[2] I have added price liberalization in Table 1, since for the shock therapy supporters it was an extremely important policy.

included. Additionally, on the topics of poverty and the environment, there is no consensus in Washington either on the importance of the issues or on what should be done. On the question of equity, Williamson in the discussion at the conference (Anonymous, 1990, p. 38) stated that he wished that he could include an agreed policy, but he did not believe that there was an approved way of dealing with equity issues. There was also a concern that there was no consensus on the amount of time that the adjustment measures required to mature or on the sequencing of the reforms.[3] Williamson's (1994, p. 20) response was the proposition that the best time to introduce the reforms is immediately after the reform-minded government takes power. An incoming government enjoys a 'honeymoon period' during which the public will give it the benefit of the doubt and blame any sacrifices and difficulties on its predecessor. In all probability, this honeymoon will not last forever; hence decisive action is essential. In the end, the set of the recommended policy reforms under the Washington Consensus proper appears in Table 1. The resurfaced policy omissions were price liberalization, poverty, the environment, equity, timing and sequencing of reforms.

THE WASHINGTON CONSENSUS AS A NEOLIBERAL MANIFESTO

Every attempt to define a consensus has the unintended consequence of stimulating 'misinterpretation', dissent and criticism. Additionally, the simplifying assumptions behind the Washington Consensus made it an easy target for attack from economists and non-economists alike. The use of the term 'consensus' implies that there is a general agreement because the correct solution has been derived. In actual fact, the word is often used by those who try to make their own views acknowledged, as Stewart (1997, p. 68) argues. Thus, the term Washington Consensus declared that agreement has been reached and that Washington was right. Nonetheless, this did not imply that Washington was correct, based on those who interpreted the Washington Consensus as a neoliberal manifesto.

The 'misinterpretation' of the Washington Consensus as a neoliberal manifesto, as Williamson clearly insists that it is a misinterpretation, appears to be a caricature of the Washington consensus proper by unreasonably exaggerating its distinguishing features. The Washington Consensus as a neoliberal manifesto defines the consensus as the set of economic policies

[3] The sequence of reforms is not a concern for the shock therapy process, since the all the reforms are launched at the same time in 'one shot'.

implemented by Ronald Reagan and Margaret Thatcher under the inspiration of Friedrich Hayek and Milton Friedman. However, now 'Washington' as an area of authority has also been expanded. The consensus is derived between 15th Street and 19th Street in Washington among the United States Treasury, the IMF and the World Bank, as well as some influential think tanks, a prominent majority of academics along with assorted editorialists and, most importantly, business interests (Kolodko, 1999, p. 6–7; Naim, 2000, p. 91). The term has been construed to describe an extreme and doctrinaire commitment to the belief that markets can solve all problems, and this axiomatic conviction to be valid for all places and at all times. Supposedly, it is a 'one-size-fits all' approach (Stiglitz, 2002, p. 34). The purpose and the character of the formulators of the Washington Consensus as a neoliberal manifesto can clearly be revealed by a statement by Stewart (1997, p. 62) that 'Williamson was coming clean about who made policy in the late twentieth century – not governments, but Washington'. The Latin American governments did implement the Washington Consensus policies, although not voluntarily based on the interpretation of the Washington Consensus as a neoliberal manifesto, but as a result of the strong conditions associated with the provision of financial aid. The debt situation and Latin America's desperate need for funds gave Washington a powerful weapon to ensure that the 'right policies' were initiated. But in addition to Latin America the 'right policies' were also enforced and pursued in other economies, again through the policy of conditionality. The distortion of the Washington Consensus into a neoliberal manifesto appears to serve as a means of attacking the link between the provision of financial aid and conditionality, as applied by the international financial institutions.

In the following the Washington Consensus as a neoliberal manifesto is presented in the order of the proper version. The Washington Consensus as a neoliberal manifesto is based on Cross and Strachan (2001), Kolodko (1999) and Stiglitz (2000, 2002).

1. *Fiscal Discipline*: Establish a balanced budget.
2. Public Expenditure Priorities: Reduce government expenditure.
3. Tax Reform: Enact overall tax cuts and eliminate taxes raised in order to redistribute income and remove taxes on capital movements
4. *Financial Liberalization*: Market determined interest rates and the money supply should grow at fixed rate consistent with monetarism.
5. *Exchange rate policy*: Exchange rates ought to be fully convertible and freely floating.
6. *Trade Liberalization*: Establish free trade and the elimination of protection measures.

7. *Foreign Direct Investment (FDI)*: Abolish barriers to entry and exit for foreign firms.
8. *Privatization*: State enterprises should be privatized through the free distribution of vouchers to all adult citizens.
9. *Deregulation*: Eliminate entry and exit barriers and the suppression of regulations designed to protect the environment.
10. *Property rights*: It is stipulated that the Washington Consensus did not show any interest in property rights, generally.
11. *Institution Building*: Establish an independent central bank.
12. *Price Liberalization*: While price liberalization was not included in the Washington Consensus, the neoliberal manifesto requires immediate price liberalization.

Williamson was quite surprised that his baby was used to espouse a neoliberal agenda; the term has been misconstrued. 'This struck me as an abuse of language' (Williamson, 1996, p. 19). Williamson has repeatedly maintained that the Washington Consensus was a lowest common denominator rather than a manifesto, and was not even close to a neoliberal manifesto. As the 'father of the Washington Consensus' (Williamson, 1996, p. 21) he has the parental rights and the intellectual property rights to declare what the term signifies 'in the form that I invented it' (Williamson, 1996, p. 19): 'It is not a neoliberal manifesto, but rather a list of what a certain group of people believed at a certain point in time would have been good policy for a certain group of countries' (Williamson, 1996, p. 21). The consensus personifies the best-practice and well-tested lessons of the various post-war economic experiments by discarding those policies that have failed. How could someone accuse him of being a neoliberal or neoconservative? Williamson considers himself a classical liberal in the tradition of John Locke, Adam Smith, and John Stuart Mill (Williamson, 1996, p. 19; 1997, p. 49). The reason that policies, such as equity and the environment were excluded is because they were not eligible for inclusion in a lowest common denominator. This view of the Washington Consensus as a neoliberal manifesto is presented in Table 1.

SHOCK THERAPY IN TRANSITION ECONOMIES

The Shock Therapy model was firstly initiated in a transition economy in Poland on January 1, 1990. The countries that followed were Czechoslovakia on January 1, 1991, Bulgaria on February 1, 1991, Russia on January 2, 1992, Albania on July 1992, Estonia on September, 1992, and Latvia on June 5,

1993. The supporters of the Shock Therapy model argued that the elements of the model would ensure economic growth at full employment with low inflation and stability (Lipton and Sachs, 1992, p. 249). The Shock Therapy model highlights the interdependence and mutually supportive and interactive character of economic relationships. This implied that reforms should be introduced simultaneously. Fragmented changes would be ineffective. The program has been described as a 'leap to a market economy' (Lipton and Sachs, 1990, p. 48) and a 'jump to a market economy' (Sachs, 1993).

According to the Shock Therapy model, restructuring could not take place without an effective price system. An effective price system could not exist without a convertible currency. In turn, a convertible currency was impossible without opening the economy to international competition and international competition could not be effective without restructuring. 'The idea that there is choice between doing one radical measure or another is simply wrong. There is no trade-off but, on the contrary, complementarity' (Aslund, 1997b, p. 187). Countries, such as the transition economies, experiencing such severe macroeconomic imbalances could not afford to reform slowly. Both the economic and political situation required a rapid and comprehensive reform (Lipton and Sachs, 1990, p. 99): 'if a house is on fire, you do not tell the fire brigade to pour water slowly' (Aslund, 1994, p. 37). Jeffrey Sachs (1990) stated that, 'Poland's goal is to establish the economic, legal and institutional basis for a private-sector market economy in just 1 year'.

In the following, the list of Shock Therapy policies are presented in the order Williamson presented the Washington Consensus:

1. *Fiscal Discipline*: Small budget deficits should be used to finance the necessary social programs. Sachs (1994, p. 6) argued that, while reducing the budget deficit could reduce inflation, altering the way in which the deficit was financed could also reduce it. Inasmuch as the budget deficit was financed by foreign financial resources (such as foreign borrowing, grants, aid) or by domestic borrowing (by the creation of Treasury bill market), it would not result in inflation. The introduction of a Treasury bill market would have allowed flexibility in fiscal and anti-inflationary policy by permitting the government to borrow from domestic investors rather than printing money. Consequently, it was possible to have low inflation and a small budget deficit, which could finance the necessary social programs.
2. *Public Expenditure Priorities*: based on the Shock Therapy approach, the state needed to remove itself from the productive sphere and concentrate on the provision of social services. The social spending program under central

administration had contributed to severe budget deficits. To be able to fund large social transfers, transition economies had to impose high taxes, resulting in distortions, capital outflow, tax evasion and illegal economic activity through the black market (Sachs, 1997b, p. 253). Meanwhile, there was a need to assist the poor and the vulnerable classes during the transition process. Thus a safety net was vital for the success of the reform program: 'The implementation of short-term safety net programs to protect the poor and/or vulnerable has become as much a political as an economic necessity in many countries' (Graham, 1997, p. 344). Consistent with this were the elimination of subsidies to state enterprises and the reduction of public investment spending (Sachs, 1997b, p. 246). A well-targeted safety net for the Soviet Union in 1991 would have required only 2.4 per cent of Gross National Product (Aslund *et al.*, 1996, p. 239).

3. *Tax Reform*: With respect to the tax structure, there was a need for the introduction of new taxes consistent with the market process, such as value added and income taxes, instead of taxes on the profits of state enterprises as under the old regime. Boone and Fedorov (1997, p. 179) recommended that a tax reform in a transition economy should incorporate: specifying the concepts of income, costs and profits; introducing income taxes and reducing taxes on state enterprise profits; ending double taxation and lowering value-added taxes; increasing property taxes; removing export duties and many import tariffs; and introducing accelerated depreciation.
4. *Financial Liberalization*: Financial stabilization was extremely important and urgent because it 'is a prerequisite for social stability and for many other reforms' (Sachs, 1996a, p. 131). As a consequence, monetary policy was central in achieving stabilization and liberalization (Dabrowski, 1997, p. 53). The role of the central bank had to be redefined. It must become an effective monetary authority; it could not be the provider of a soft budget constraint. A restrictive monetary policy was essential, as was the establishment of a positive real market determined interest rate.

   The central bank had to establish credit targets for holding overall money growth to levels consistent with a rapid elimination of inflation (Sachs, 1993, p. 49). This is because inflation is a monetary phenomenon (Aslund, 1993, p. 99). The quantity theory of money states that the monthly rate of inflation is equal to the rate of growth of the money supply minus the rate of growth in output (Sachs, 1994, p. 5). Thus, monetary policy should follow a specific rule. That is, increasing the money supply in line with the increase in real output. In this way, the danger of inflation would be eliminated. As Aslund (1995, p. 220) reasoned, 'the evidence is clear: the quantity theory of money is applicable in Russia, too. As has been shown, inflation can be explained by the increase in money supply and the velocity of money'.

5. *Exchange rate policy*: Aslund (1995, p. 183), Sachs (1996b, p. 149; 1997b, 249) and Sutela (1992, p. 92) were in favour of a pegged exchange rate at the start of the stabilization program, and then a more flexible rate after one or two years. This was because the pegged exchange rate had some advantages in times of high inflation. Firstly, a pegged exchange rate secured the government's commitment to stabilization by establishing clear monitoring targets and 'tying the government's own hands' (Sachs, 1996b, p. 149). Secondly, the pegged exchange rate would bring certainty and facilitate economic actors in planning and in formulating expectations around new low-inflation equilibrium. Lastly, it would facilitate households and enterprises in building their real cash balances after high inflation. Thus, if velocity was high and rising, a dedication to a pegged exchange rate with the backing of international organizations and mature market economies could restore trust in the currency (Sachs, 1997b, p. 250). On the other hand, 'exchange rate instability would make it even more difficult to arrive at any kind of predictability and thus equilibrium' (Sutela, 1992, p. 93). All these elements assisted in reducing high inflation in transition economies. The international experience revealed that the most successful stabilization programs, such as Bolivia in 1985, Israel in 1985 and Mexico in 1987, were based on a pegged exchange rate (Sachs, 1997b, p. 251). In the transition economies, the early peggers – Czech Republic, Estonia, Hungary, Poland and Slovakia – performed much better than the floaters, in terms both of the speed and cost of disinflation. The peggers achieved inflation below 100 per cent per year by 1994 (Sachs, 1996b, p. 149). After the successful implementation of a pegged exchange rate in reducing inflation, 'there is a strong case for moving to a more flexible exchange-rate arrangement once high inflation has been eliminated and the economy has been substantially demonetized' (Sachs, 1996b, p. 150).
6. *Trade Liberalization*: The Shock Therapy advocates favoured complete liberalization of the international trade sector by currency devaluation to the black market level and removal of trade barriers. Trade liberalization was an essential component of a successful trade performance in transition economies (DeMenil, 1997, p. 275). This was because free international trade was the most effective way of installing real competition, since the transition economies were considered small economies in the international arena and were in very close proximity to the mature market economies of Western Europe. Transition economies would be able to import a rational price system and benefit from the transfer of technology, which would stimulate increases in productivity growth. Owing to international integration, a substantial increase in exports would take place with the mature market economies, removing the previous reliance on the Soviet Union. The

increase in exports would be due to the low-wage and high-skill characteristics of these economies. Exports would promote growth, which would reverse stagnation and stimulate an increase in living standards. The international market could supply technology, managerial expertise, organizational techniques and financial capital. Protectionism was inconsistent with the Shock Therapy model. However, there might be some justification for a low tariff, of about 10 to 15 per cent, in the initial stages of transition to protect domestic industry for a very short time and to raise state revenues (Aslund, 1992, p. 48).

7. *Foreign Direct Investment (FDI)*: Foreign direct investment would be encouraged as long as the traditional conditions existed: political stability, free markets, an appropriate legal environment and a stable and convertible currency (Aslund, 1992, p. 58). These conditions could only be achieved by using the market mechanism. The development of an institutional structure based on self-enforcing mechanisms would be able to entice foreign investment. Lipton and Sachs (1992, p. 263-4) stressed that domestic savings and foreign aid were inadequate to finance economic development. Foreign direct investment would be the major source of transfer of resources, technology, managerial skills and connections with foreign enterprises. Capital inflow was linked to privatization, since countries without rapid and vigorous privatization programs were likely to have a very small capital inflow. 'Having noted this, however, we must be realistic about the timetable for significant foreign capital flows, which will only come about on a large scale after a few years of successful reform…' (Lipton and Sachs, 1992, p. 264). However, foreign investors should not receive any special treatment, because a discretionary measure like this would only result in distorting market outcomes.
8. *Privatization*: The dominant form of ownership had to be private, while the main form of organization (especially for large enterprises) had to be a corporate structure, as in mature market economies. Private ownership of enterprises constituted the ultimate form of decentralized property rights because individuals owned equity, which was freely transferable (Woo, 1997, p. 300). Without private property, effective market relations could not exist. 'When there are no capitalists there is nobody to represent the interests of capital' (Sachs, 1993, p. 29). It was impossible to maintain financial discipline under a soft budget constraint when state ownership dominated. In this context, private ownership of unprofitable firms was still desirable (Aslund, 1995, p. 267). Rapid privatization was essential. 'Fast privatization is privatization that offers large political benefits from the start, which is exactly what a reformist government needs' (Boycko *et al.*, 1993, p. 148). Privatization of state enterprises was a means of reducing the

budget deficit, even in the case of a non-sale of state enterprises such as the transfer of state enterprises to pension funds. It reduced the budget obligations for social security payments (Sachs, 1997b, p. 248). Privatization should take place through a combination of different methods (sales, free distribution or other means). Preferably, however, privatization of large firms should be through free distribution of vouchers (Sachs, 1991, p. 67), retail shops could have been privatized immediately by auctioning them under the supervision of municipal governments (Sachs, 1992b, p. 47) and the privatization of land was relatively painless, and high economic advantages were associated with family farms (Aslund, 1992, p. 77).

9. *Deregulation*: The removal of any constraints to the achievement of a free market was imperative. In a free market environment enterprises would not be protected by the state, but would have to satisfy consumer demand by producing goods based on consumer sovereignty at competitive prices and also to compete with imports. Initially, with little competition and shortages of goods and services, it was easy to set-up an enterprise that could be profitable (Aslund, 1994, p. 35). For competition to be effective, the inefficient enterprises had to go bankrupt. Permanent 'rehabilitation' of bankrupt companies by the government would make a market economy impossible. The introduction of competition would also result in positive externalities throughout the state sector, since competition encouraged restructuring in the state sector. In this context, we should not underestimate the development of new firms as a means of stimulating growth. Since the efficiency gains of privatized firms would take some time to materialize, any improvement in economic conditions in the short run would come from the establishment of new firms (Woo, 1997, p. 323).
10. *Property Rights* The aim of the transition process was to establish the appropriate institutions to organize the new market mechanism for allocating resources. Transition economies had to develop appropriate laws and institutions, which included defined property rights and well-enforced rules of contract, which were essential if they were to be able to obtain the benefits associated with the market process. 'Without law, there can be no property rights and without these there can be no real economic stabilization or development' (Aslund, 1997a, p. 14). Consequently, the reforms could not prosper until authorities and individuals developed respect for the law and legal processes (Boone and Fedorov, 1997, p. 184).
11. *Institution Building*: there must be only one independent central bank with the effective instruments of monetary policy and writing in its constitution the monetary rule.

The Shock Therapy approach is presented together with the different versions of the Washington Consensus in Table 1.

CONTRASTING SHOCK THERAPY WITH THE WASHINGTON CONSENSUS PROPER AND THE WASHINGTON CONSENSUS AS A NEOLIBERAL MANIFESTO

The pace of the implementation of the Shock Therapy process necessarily slowed down because of political issues. The process appeared to slow down because some aspects of the reform could not be implemented so speedily, as for example you can liberalize prices overnight but you cannot privatize state enterprises in the same speed. Despite the substantial initial support for governments initiating the process in transition economies, there were considerable undesirable outcomes, such as high level of unemployment, inflation impoverishment, increased inequality and depression. Even though, the empirical literature of regression analysis demonstrates that output fell less with more radical reforms and inflation fell sooner with more radical macroeconomic stabilization, it is very likely that these benefits were neither not materialized nor perceived to be materialized during the term of government, which implemented shock therapy. In a democratic environment, the substantial reduction in output and employment led to unpopularity of the governments implementing the Shock Therapy approach, which resulted in the ultimate downfall of these governments through the electoral process. Nevertheless, virtually all governments in transition economies faced difficulty in getting re-elected regardless of the speed of reforms. In particular, the reasons why the Shock Therapy process of reform did not deliver all the benefits as described were recognized to some degree by Sachs (1995) and Aslund (1994, p. 24). For the Shock Therapy supporters, the reasons were not due to the fundamental elements of the reform strategy, but rather to the inconsistent policies and inadequate support by 'Washington' in assisting the transition economies. In particular:

1. *Fiscal Discipline*: The insistence of the IMF on budget cuts rather than deficit financing did not allow aid to be used to finance the budget deficit (Sachs, 1994, p. 8). In fact, IMF aid was conditional on reducing the budget deficit. For example, while the Russian government revealed that it would like to sell bonds to finance the budget deficit, the IMF showed no interest in the proposal (Sachs, 1994, p. 9). However, the loans provided by the IMF were of a very short-term nature at commercial rates and were used to finance government expenditure on imports. 'Why is the IMF incorrect in simply

pressing for greater budget cuts in the deficit? Such cuts are economically and politically unjustified' (Sachs, 1994, p. 7). There might have been some concern over financing the budget deficit with external resources because it would increase the public debt. However, there was an argument for the provision of grants rather than loans, as with the Marshall Plan for example. Nevertheless, even if external financing was provided in the form of loans, the transition economies would have been able to repay them eventually. The public debt of Russia as a percentage of GDP in 1993 was less than that of almost all OECD countries (Sachs, 1994, p. 8). The loans would have been managed productively and also used to fight inflation. In addition, the budget deficit could have been financed by privatizing state enterprises. This would have ended the responsibility to provide subsidies, creating a further positive impact on the budget (Sachs, 1997b). As such, Shock Therapy supporters did not advocate a balanced budged as the neoliberal manifesto stipulated. Fiscal discipline is consistent with the Washington Consensus proper. However, there is a disagreement between Shock Therapy supporters and the Washington Consensus proper regarding the role of foreign aid in financing the deficit.

2. *Public Expenditure Priorities*: Foreign aid, from mature economies or international financial institutions, was important in several respects. Because foreign reserves in transition economies were depleted, aid would provide the opportunity to increase foreign reserves and to finance budget deficits. These had the aim of stabilizing the price level and reducing the burden associated with the transition costs, especially the burden to the ordinary people. Foreign aid would also finance imports in the light of falling domestic production. Furthermore, the conditional nature of foreign aid and international credits could be used to pressure the government and the people into supporting the transition plan (Aslund, 1995, p. 183). Importantly, foreign aid and borrowing would reduce the need for monetary financing of the budget deficit. The budget deficit and the necessary social programs could be financed by foreign aid and borrowing from international organizations without increasing the domestic money supply (Sachs, 1997b, p. 247).The Shock Therapy model presupposed debt cancellations, international transfers, balance of payments and budgetary support as means of overcoming stagnation and maintaining political support for the reform program. Without relief from the large debt problem, the much-needed capital inflow would be restricted, removing a major source of economic growth. All external debt had to be frozen and rescheduled to ease the burden and to allow the transition economies to start afresh (Fedorov, 1992, p. 110). It was the responsibility of the mature economies to assist the transition economies as much as possible because 'this money

could help to make a democratic and economic transformation feasible which otherwise would not be feasible' (Sachs, 1992a, p. 210).Instead, foreign aid was substantially below the necessary amounts, and it came in the form of export credits. Meanwhile, financial support by mature market economies was modest, if not totally inadequate. The IMF and the World Bank, the only real financiers of the transition process, 'have proven to be largely inefficient' (Sachs, 1995, p. 61). Financial assistance was very small and financial aid totally inflexible. Sachs (1994, p. 5) insisted there was a need for a change in the timing and character of foreign aid in the transition economies, in particular in Russia. Financial assistance should have taken the form of grants, not loans. The IMF had refused to support the establishment of a stabilization fund. Even when it announced in 1995 the possible establishment of stabilization funds, it continued to inform countries that these funds would be available only after inflation had been reduced (Sachs, 1996b, p. 150), in other words, when they were not needed. Meanwhile Russia, for example, never had the possibility of stabilizing without 'massive foreign assistance' (Layard, 1993, p. 32). Unfortunately, 'the international community had not woken up' (Aslund, 1995, p. 99). Thus the Shock Therapy supporters recommended a redirection of public expenditure priorities towards developing an effective safety net. This would entail a reduction in government expenditure in other areas but not on the safety net. Consequently, Shock Therapy is inconsistent with the neoliberal manifesto, which was in favour of a reduction in total public expenditure. Public expenditure priorities of the Washington Consensus and Shock Therapy are consistent. However, these public expenditure priorities in the Shock Therapy model could mainly be funded by foreign aid for which Washington was unwilling to provide creating an inconsistency.

3. *Tax Reform*: is consistent with the Washington Consensus proper adjusted for the needs of transition economies in developing a consistent tax structure with a market economy. However, it is inconsistent with the Washington Consensus proper with regard to taxing capital flight. Thus, the tax reform would involve a reduction of taxes collected on enterprises profits and a broadening of the tax base by introducing income tax and value added tax. With regard to the neoliberal manifesto, the Shock Therapy approach did not involve an overall tax cut, since the process involved an increase in taxes as a result in changing the structure of the tax system. In spite of this, the shock therapy approach was not in favour of a tax or any restriction on capital movements. In this case, the shock therapy is consistent with the neoliberal manifesto.
4. *Financial Liberalization*: It was essential to comprehend that the control of the money supply and credit required one independent central bank and not

several independent regional banks with the power to issue credit, as occurred in Russia with the republics after the collapse of the Soviet Union. The new political environment produced a very unusual monetary system: a monetary union of fifteen independent states with 15 independent central banks (Dabrowski, 1997, p. 46). Oddly enough the IMF, the European Union and other international organizations recommended the maintenance of the ruble currency area, with 15 central banks responsible for providing rubles credits and coordinating monetary policies. The excuse was that the non-Russian republics were not ready to manage their own currencies (Granville, 1997, p. 101). Sachs and Lipton (1997, p. 80) emphasized that it was impossible to coordinate 15 independent central banks which had the independent right to issue ruble credits, and which were not willing to co-operate with each other. This was because the several central banks competed with each other and were under extreme political pressure to provide credit in their specific regions, destabilizing the whole economy of the ruble currency area. There was an incentive to free ride by issuing ruble credits at the expense of the rest of the members. Russia was forced to offer credits to the non-Russian republics of about 10 per cent of GDP in 1992 (Sachs, 1997a, p. 128). 'It is nearly self-evident proposition that a single currency area should have a single bank of issue' (Lipton and Sachs, 1992, p. 237). The persistence, especially by the IMF, in artificially maintaining the ruble ensured hyperinflation and the failure of stabilization policies in the non-Russian republics (Sachs, 1997b, p. 128). Consequently, 'there should be one currency, one central bank, and one monetary policy in one currency area' (Aslund, 1992, p. 61). So it appears that the disagreement between Washington and Shock Therapy is based on the idiosyncratic conditions created in the ex-Soviet Union after the collapse of centrally administered socialism. But that is only part of the truth. Washington, as Williamson argues, was in favour of moderately positive real interest rates, while the Shock Therapy approach stipulated a positive real interest rate. This, however, should not be interpreted that shock therapy supporters were against the central back setting interest rates. Hence, it emerges that that Shock Therapy position is consistent with the Washington Consensus proper advocating positive real interest rates. However, the implementation of the monetary rule is consistent with the Washington Consensus as a neoliberal manifesto.

5. *Exchange rate policy*: It was the intention of the Gaidar government in Russia to peg the exchange rate. However, the necessary financial resources required for the stabilization fund of six billion dollars, did not exist. Again this highlighted the urgency and the importance of foreign aid. Nonetheless, the IMF was not willing to establish a stabilization fund as long as the

exchange rate was not stabilized. If the exchange rate was stabilized, there would not be a need for a stabilization fund (Aslund, 1995, p. 67, 183). If we interpret the pegged exchange rate as a managed competitive exchange rate stipulated in the Washington Consensus proper, the Shock Therapy approach, in this case, does not contradict the Washington Consensus proper in the short run and does not contradict the Washington Consensus as a neoliberal manifesto in the long run.

6. *Trade Liberalization*: The restoration of trade between transition countries through the so-called 'free trade arrangements' was not desirable. Limited administrative resources would have been allocated away from the main goal of integration into the international economy. Wang (1996, p. 23) argued that the creation of a regional trading block would be a fruitless exercise, since estimates demonstrated that most of the international trade generated for transition economies would take place with mature market economies and not between transition economies. There were very few analogies between the former Soviet Union and post-war Western Europe to justify the establishment of a payments union. Consequently, the only sensible alternative was the establishment of independent convertible national currencies. The opposition to free trade agreements by the Shock Therapy supporters is consistent with the recommended trade liberalization policy of the Washington Consensus proper. Shock Therapy is consistent with the Washington Consensus proper since both maintained a low level of tariffs in contrast to the Washington Consensus as a neoliberal manifesto.
7. *Foreign Direct Investment (FDI)*: This is a common policy for Shock Therapy, the Washington Consensus proper and the neoliberal manifesto.
8. *Privatization*: The Washington Consensus proper was not in favour of rapid privatization or of voucher privatization, as Williamson (2000, p. 256) stipulated. The positive outcomes of privatization are directly linked with the pace and method implemented. Hence, privatization cannot be rapid and cannot take place by vouchers. The insider-voucher privatization that occurred in Russia, for example, allowed state assets to be appropriated by the elite (Williamson, 2000, p. 258). Thus Shock Therapy is only consistent with the neoliberal manifesto in this case.
9. *Deregulation*: With regard to the labour market, an efficiently functioning labour market was a principal prerequisite of a successful transition (Frydman *et al.*, 1997, p. 63). Thus, wages should be market-determined, giving rise to unemployment, which was part of the remedy. The reduction in real wages required to bring equilibrium in the labour market did not automatically mean a reduction in living standards by the same percentage. However, at the beginning of the reform program, to avoid a wage-price spiral due to hyperinflation, Sachs and Lipton (1990, p. 56) recommended a

tax-based wage policy to encourage wage increases below the increases in inflation. For example, the Polish government initiated penalties on wage increases, the so-called *popiwek* (Balcerowicz *et al.*, 1997, p. 138), under which wages were to increase by 30 per cent of the monthly inflation rate in January 1990 and 20 per cent afterwards. Enterprises conceding wage increases above the norm were heavily taxed. Nevertheless, in market economies inflation can only be contained with some unemployment (Layard, 1993, p. 15). Thus, while there is an agreement about the deregulation of all markets, in the case of the labour market there is disagreement. The Shock Therapy supporters were in favour of a tax-based wage policy (Incomes Policy), which is inconsistent with the Washington Consensus, which favoured of a deregulated labour market while allowing for a minimum wage. Whereas it was not clearly stated deregulation should also be applied to the labour market (Williamson, 2003b, p. 324).

10. *Property Rights*: The development of property rights appropriate to the market process was extremely complex and time-consuming, yet it was essential. This raised doubts regarding the feasibility of the Shock Therapy approach. The Shock Therapy supporters argued that these doubts were unwarranted. Property rights and the institutional structure, like any other good, were the result of consumer sovereignty. 'Contrary to the common economist's assumption that a system of property rights is a precondition of a market economy, the development of market institutions is often a prerequisite for a viable private property regime' (Rapaczynski, 1996, p. 102). Thus institutional change was a derivative. The most important goal was the spontaneous development of market relations through the removal of most restrictions on individual activity. While the new market relations served to aid the development of the institutional structure, the institutional structure served to strengthen the new market relations. 'Indeed, the legal responses are often only effective against a background of self-enforcing market mechanisms' (Rapaczynski, 1996, p. 102). The Shock Therapy process utilized market incentives to internalize the developmental process of institutions instead of relying on the government, an external actor. Consequently, it was argued, a radical reform process would not inhibit the development of the institutional structure. In fact, the mere fact of the existence of private enterprises and market relations created the need for an appropriate institutional environment. 'The evidence suggests that institutional development is stimulated by early and radical reform' (Aslund *et al.*, 1996, 249). Thus, while property rights is highlighted as important for the Washington Consensus, a mechanism for their development was not provided, while the Shock Therapy supporters insistence on the importance of property rights as a result of a market process. It can be argued that

Shock Therapy does not contradict the Washington Consensus proper in this case; however it contradicts the Washington Consensus as a neoliberal manifesto as it was stipulated that the Washington Consensus did not show any interest in property rights.

11. *Institution Building*: the independent bank as recommended by the Shock Therapy was not mentioned in the Washington consensus proper; as Williamson (2003a, p. 329) admits that the Washington Consensus concentrated on policies, not institutions. Thus this policy is consistent with the neoliberal manifesto.
12. *Price Liberalization*: Price liberalization was not part of the Washington Consensus proper, since there was no consensus on the issue as already mentioned, while it is an element of the neoliberal manifesto. Meanwhile for the Shock Therapy supporters price liberalization and stabilization were pre-conditions for a successful reform process (Blanchard and Layard, 1993, p. 1). Price liberalization was also required for the establishment of a hard budget constraint (Aslund, 1993, p. 99). Reform of the price mechanism was necessary to allow prices to reach their equilibrium values. Impersonal market forces determine prices and not the government, which was influenced by political considerations. In this way the increased prices reduced real money balances to the appropriate level for monetary equilibrium. Given the lack of a scarcity-based price system it was infeasible to develop an effective stabilization program. The price system had been so distorted under centrally administered socialism that it was impossible to determine which enterprises should close or continue in operation. Furthermore, the valuation of enterprises could not take place without knowing the prices of inputs. This necessitated market competition. Higher prices were in the interests of society because they eliminated shortages and queues, induced greater availability and quality of goods, facilitated lower prices than on the black market and eliminated corruption. It was better to face a single increase in prices than high and persistent inflation, since there was nothing beneficial associated with high inflation and the accompanying corruption (Aslund, 1995, p. 175, 222). In fact, prices often were lower than on the black market, even though official inflation rate had increased. The Shock Therapy economists were in favour of an adjustment approach which involved an increase, actually a jump in the price level. Thus, in this case the Shock Therapy approach is consistent with the neoliberal manifesto. However, in the Washington consensus either price liberalization or prices freezes would be acceptable.

The Shock Therapy approach is contrasted against the two different versions of the Washington Consensus in Table 1.

CONCLUSION

The considerable confusion about the term Washington Consensus has resulted from different versions of the concept. I distinguished two different versions of the Washington Consensus: the Washington Consensus proper to denote the policies initiated by the father of the term and the 'misinterpretation' of the Washington Consensus as a neoliberal manifesto, which has become a fashionable use of the term in a negative sense.

The Shock Therapy approach is consistent with the Washington Consensus proper, with respect to fiscal discipline and public expenditure priorities (with a disagreement over foreign aid financing budget deficit), tax reform (but no tax on capital flight), financial liberalization (but not the monetary rule), exchange rate in the short run, trade liberalization, foreign direct investment, deregulation (but not the labour market), property rights (but only as a result of the market process), price liberalization (as there is no consensus). However, there is a disagreement regarding the role of foreign aid in funding the budget deficit and public expenditure priorities, tax on capital flight, the monetary rule, privatization, regulation of the labour market and institution building (independent central bank).

With regard to the neoliberal manifesto the Shock Therapy approach is consistent with no tax on capital flight, the monetary rule, exchange rates in the long run, foreign direct investment, privatization, deregulation (but not the labour market), institution building and price liberalization. The Shock Therapy approach is inconsistent with respect to the neoliberal manifesto with regard to fiscal discipline, public expenditure priorities, tax reform (not on capital flight), financial liberalization, exchange rates in the short run, trade liberalization, and the labour market.

Hence, the paper demonstrates that the meaning of the term Washington Consensus changed over time as it was used differently by its intellectual father and by those who identified it as a neoliberal manifesto. The aforementioned analysis clarifies that the implementation of the Shock Therapy process in transition economies differs with the Washington Consensus proper in terms of the idiosyncratic conditions of transition in contrast to Latin America and differs with the Washington Consensus as a neoliberal manifesto in terms of a dissimilar ideology. In particular, Williamson established the term Washington Consensus to refer to the Latin American reforms rendering macroeconomic prudence, outward orientation, domestic liberalization and free market policies as essential, Stiglitz and others regard the Washington Consensus as a neoliberal manifesto to refer to a general applicable laissez-faire reform program, and use it as a means to condemn the IMF, World Bank, Sachs and others established the Shock

Therapy program for the transition economies. In conclusion, the Shock Therapy process in transition economies was not identical to either the original version or the neoliberal version of the Washington Consensus.

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