Towards an Inclusive-Neoliberal Regime of Development:

From the Washington to the Post-Washington Consensus

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**Prepared for Delivery at the Canadian Political Science Association Conference
York University, Toronto, June 1-3, 2006.**

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Introduction

The World Bank and the International Monetary Fund (IMF) have since the late 1990s been involved in an attempt to redefine their approach to development, moving away in their rhetoric from conditionality and structural adjustment towards poverty reduction and country ownership of development polices. This orientation towards poverty reduction and country ownership is reflected in the launching of the Comprehensive Development Framework (CDF), which is described by the Bank as an attempt to operationalize an holistic approach to development, integrating non-economic aspects into development, and emphasizing the needs and the participation of the poor in the development process (Pender 2001: 407). As part of this policy shift, the Bank has also engaged in a renewed theoretical discussion about development, eventually leading to the emergence of the Post-Washington Consensus (hereafter PWC), a theoretical convergence between (Washington Consensus- based) neoliberal ideas and the new information-theoretic (neo-Keynesian) paradigm developed by Joseph Stiglitz.

The articulation of the PWC was moreover accompanied by the introduction of a new policy tool, the Poverty Reduction Strategy Paper (PRSP) approach, which emphasizes country ownership and civil society participation as two of the key principles in development cooperation. According to the Bank and the Fund, these policy changes have resulted in the abandonment of traditional structural adjustment lending and the policy conditionality associated with it, in favor of a development approach that emphasizes partnership and cooperation between the IFIs, developing country governments and civil society organizations. Moreover, in this process the IFIs have repositioned themselves as institutional providers of information and knowledge, while borrowing governments are being asked to take on responsibility, or 'ownership', for the development policies that they choose to pursue (Stiglitz 1998b: 21).

At the risk of simplification, the recent articulation of the PWC within the Bank and the Fund has been met with two fundamentally opposed responses in academia. One the one hand, critics of the development establishment maintain that the PWC and the policy changes that it involves do not represent a shift away from neoliberal policy practices but have rather tightened the grip of the International Financial Institutions (IFIs) over developing countries, foreclosing social and political alternatives to neoliberal practice (*e.g.* Cammack 2002 and 2004; Weber 2004; Bond 2004; Soederberg 2005; Charnock 2006). Poverty reduction strategies are seen as part of a political project to further institutionalize and 'lock in' neoliberal reforms in developing countries. Susanne Soederberg has recently provided a succinct summary of this view: "From this perspective, then, the PRSPs are not about doing away with conditionality, but should be seen instead as direct responses to the above-mentioned 'threats to neoliberalism', which are, in turn, targeting at reconfiguring and deepening neoliberal domination over the growing number of the poor in the South" (Soederberg 2005: 339). On the other hand, supporters of the IFIs posit that the PWC represents a fundamental rupture in development thinking and a progressive move away from neoliberalism and policy conditionality towards country ownership and the acknowledgement of the importance of home-grown institutions and policies (Booth 2003; Driscoll and Evans 2005; Stiglitz 1998b).

This paper will argue that the aforementioned bifurcation in the literature has led to a significant impasse in understanding the relevance of this policy shift and presents a different interpretation of the recent shift in the development approach of the IFIs. It will show that the PWC neither represents a fundamental rupture with the Washington

Consensus nor an attempt to reproduce the same neoliberal policy regime. In order to capture this ambiguity, the concept of *inclusive neoliberalism* will be introduced, and it will be argued that the PWC is rather the first step towards the emergence of an inclusive-neoliberal regime of development in the global economy. This term seeks to capture the paradox that while numerous similarities between the Washington and the PWC remain in place, such as the liberalization and the privatization of the economy, the PWC nevertheless deviates progressively in a number of ways from the earlier Washington Consensus.

Thus, this paper excavates the discontinuities within the continuity of the IFIs new development approach. Without significant discontinuity we could not speak of *inclusive* neoliberalism, yet without significant continuity we could not speak of inclusive *neoliberalism*. This alludes to the fact that we have not entered an era after neoliberalism, but rather an era in which policies have emerged from tendencies originating within neoliberalism that nevertheless deviate from earlier policy prescriptions in a number of progressive ways and could potentially further destabilize the former paradigm. Moreover, the paper provides a neo-Gramscian reading of this inclusive-neoliberal development regime and suggests that its introduction represents an attempt by the IFIs to resolve some of the legitimacy problems and contradictions that neoliberal policies were facing in the periphery. The inclusion of previously excluded people is part of an effort to make the neoliberal project and its concomitant principles of privatization, liberalization, and deregulation truly hegemonic. Yet, this emerging inclusive-neoliberal regime of development also speaks to the power and agency of counter-hegemonic forces in developed and developing countries that have pushed their own agenda of social inclusion onto the IFIs, and have been somewhat successful in transforming the IFIs' agenda. And finally, it potentially opens up new avenues for counter-hegemonic struggles in the developing world.

In substantiating these claims, the paper unfolds as follows. First, it describes the neo-Gramscian theoretical lens through which the PRSP approach is investigated, and shows how a neo-Gramscian perspective adds value to the analysis of the PWC. Second, it will in an 'ideal-typical manner' discuss the emergent inclusive-neoliberal regime of development, describing some of the main characteristics of this new development regime. Third, the paper briefly delineates the Washington Consensus and its policy prescriptions, introducing the main assumptions of the Washington Consensus and pointing to some of the many criticisms that have materialized over the last two decades. The fourth part will turn to the PWC, and examine in more detail the overarching policy framework, the CDF, through which the PWC has been implemented. Through a selective reading of the World Bank's *Sourcebook for Poverty Reduction Strategies*, the paper, in the final section, highlights some of the most pertinent characteristics and micropolitical inclusion strategies of the inclusive-neoliberal regime of development and outlines some of the limitations and inherent contradictions of the PWC.

'Bringing Neo-Gramscian Theory in' to Global Development Studies

This paper builds on neo-Gramscian contributions to International Political Economy (IPE) in its analysis of World Bank and IMF policies, and more generally attempts to 'bring neo-Gramscian theory in' to the study of development. While neo-Gramscian approaches have recently proliferated in the area of global politics, little research has been undertaken in global development from a neo-Gramscian perspective. This is surprising given the powerful role that international institutions play in determining global development policy and the ‘added value’ that neo-Gramscian theory provides in the conceptualization of international institutions.

From a neo-Gramscian perspective, the current world order can be characterized as a non-hegemonic order in which increasingly coercion and domination are needed in the reproduction of neoliberal norms and practices (Gill 1995). In building on the Gramscian legacy, neo-Gramscians conceptualize hegemony as a form of rule which attempts to guarantee the domination of one group not through means of force, but through consent by means of political and ideological leadership and material concessions to subaltern classes. In this vein, Robert Cox explains that hegemony exists “when the dominant state and dominant social forces sustain their position through adherence to universalized principles which are accepted or acquiesced in by a sufficient proportion of subordinate states and social forces” (Cox 1993: 264). While the post-war ‘embedded liberal’ order was marked by a universal consensus and concomitant hegemony, the neoliberal order which has been in the making since the early 1980s has never been truly hegemonic, and has more recently faced major legitimacy challenges in both the developed and the developing world. In the area of development, the absence of neoliberal hegemony is expressed most palpably by the increasing unwillingness of developing country governments to voluntarily implement structural adjustment policies, and the growing popular uprisings against neoliberal reforms in many peripheral countries.

As Cox has pointed out, international institutions were key actors in the emergence and reproduction of the hegemonic post-war ‘embedded liberal’ order as they ideologically legitimated the norms of the world order; co-opted elites from peripheral countries and absorbed counter-hegemonic ideas (Cox 1983: 172). Similarly, international institutions occupy a unique position in the current non-hegemonic world order and play an important role in the attempt of producing a future hegemonic (neoliberal) order. This unique position is linked to the ideological leadership in the production of development knowledge, an activity which the Bank has increasingly focused on over the course of the 1990s, culminating recently in the revamping of the Bank into a ‘Knowledge Bank’ (Cammack 2004). But it is also linked to the IFI’s control of immense amounts of financial resources, which in the past have been put to use in the name of structural adjustment, policies aimed at the integration of developing countries into the world economy and the restructuring of developing country societies in line with neoliberal principles of governance.

For neo-Gramscians then, the IFIs are key actors in the attempt to create hegemony around a new inclusive-neoliberal ‘transnational historic bloc’, a block marked by increasingly global circuits of production and capital accumulation and the growing integration of developing country economies into a truly global marketplace (Robinson 2004). This emergent non-hegemonic transnational regime of accumulation is accompanied by the ascendance of powerful transnational social forces domestically, which has been referred to by neo-Gramscians as the internationalization of the state (see e.g. Cox 1987: 253; Baker 1999). At the same time, powerful transnational social forces have appeared in the world economy, labeled by Cox the ‘transnational managerial class’ (Cox 1987), while others claim that these social forces represent the emergence of a (not yet fully integrated) transnational capitalist class (Robinson 2004; Gill 1990; Sklair 2001). These emerging transnational social forces have (somewhat) successfully colonized many of the important international institutions, and have promoted their neoliberal agenda through numerous avenues, such as the neoliberal adjustment of developing country economies and the constitutionalization of neoliberal principles in World Trade Organization (WTO) treaties (Gill 2000), without however successfully building hegemony surrounding neoliberal ideas amongst the wider population.

The introduction of the PWC could be interpreted as an attempt to facilitate the expansion of a hegemonic neoliberal world order, by ideologically legitimating the norms of this order through a shift in the IFI's development discourse towards emphasizing poverty reduction and country ownership as the operational principles in all Bank and Fund activities, without straying away too far from neoliberal principles in the actual development practice (see *e.g.* Soederberg 2005; Bond 2004; Cammack 2004). While this interpretation is undoubtedly insightful, what needs to be added is that hegemony-building always implies elements of material incentives and concessions and the construction of social compromises. Therefore, the paper suggests that the inclusive-neoliberal development regime entails a number of material elements of co-optation which have often been overlooked in the critical development literature and which will be outlined in the following ideal-typical discussion of the inclusive-neoliberal development regime.

Towards a Global Inclusive-Neoliberal Regime of Development

The characterization of the current development regime as inclusive-neoliberal represents an attempt to conceptualize the emergent development regime that has been propagated by the IFIs under the guise of the PWC. Following regime analysis, the term 'global development regime' refers to a set of norms, rules and principles around which actors expectations converge and under which most actors in the global development community operate (Krasner 1983). Important norms that have entered the global development regime in the late 1990s under the tutelage of the PWC, and have consequently left an imprint on the practices of most development organizations, are empowerment, participation, the promotion of opportunities, and poverty reduction. All the aforementioned norms coalesce around the notion of inclusion and arguably signify the emergence of a neoliberal project of a decidedly inclusive orientation. While some scholarship has recently pointed to the use of inclusion strategies as micropolitical technologies of governance by 'Third Way' governments in the developed world, little attention has been paid to the emergence of inclusion strategies within neoliberal forms of governance amidst the IFIs (for an exception see Craig and Porter 2005). A neo-Gramscian reading of this project suggests that the ultimate goal of inclusive neoliberalism is the combination of broadly macroeconomic neoliberal policies with micropolitical rationales and technologies of social inclusion.

In the new PRS approach, micropolitical technologies of inclusion express themselves in three particular ways. First, the notion of country ownership of policies and partnership in development cooperation represent an attempt to more directly involve developing countries in the policy-making process at the national and global level. This happens however within the parameters of the inclusive-neoliberal development regime whose content has largely been predetermined by the Bank and the Fund, as evidenced by the minute policy descriptions given in the *Sourcebook for Poverty Reduction Strategies*. Second, the IFIs have begun to acknowledge the importance of including the (formerly excluded) poor and marginalized sections of society into the policy making process, through civil society participation in the elaboration of national PRSPs and participation in the implementation of poverty reduction strategies. While this paper will critically discuss the IFIs' hegemonic ambitions underlying the introduction of the concept of participation (see also Cooke and Kothari 2001), we should nevertheless welcome this policy shift since it potentially opens up new avenues for political participation that have remained foreclosed in the past.

Finally, the IFIs encourage developing countries to increase their poverty-related spending in order to include the extremely poor into the delivery of basic social services, such as health care and primary and secondary education. The resources freed up through the Enhanced Heavily Indebted Poor Country (HIPC) debt relief initiative are supposed to be earmarked for poverty-related spending, and the consumption of the extremely poor is expected to be subsidized. This subsidization can take the form of Social Funds, Poverty Action Funds and the like, transfers of resources from central governments to either local service providers or the poor themselves. While the IFIs support of the highly contested privatization and liberalization policy remains stern, they have come to realize that the extremely poor are often unable to afford basic social services at market-determined rates and therefore cannot become 'normal customers' but rather require financial help. However, this subsidization takes place within a neoliberal fiscal expenditure framework which, at the same time, limits the ability of developing country governments to spend freely in relation to poverty reduction as inflation targets have to be met in order to stay 'on-track' and qualify for debt relief. The tension between the market logic of neoliberalism and the social logic of inclusion is one of the key contradictions in the PRS approach that will repeatedly come to the forefront in the remainder of the paper.

From the Washington to the PWC

During the period from 1980 until the late-1990s, the World Bank and the IMF proceeded with a strong sense of certainty in promoting a particular set of development policies, which came to be known as the Washington Consensus (Pender 2001: 398). This policy package emerged in the early 1980s as the initially *ad hoc* answer to the experience of Latin American countries, which were struggling to overcome the debt crisis and to solve their balance of payment problems. However, this same policy package soon became institutionalized as the Washington Consensus, dominating much of development theory and practice during the 1980s and 1990s. According to John Williamson, the 'hard core' of the Washington Consensus stands for "macroeconomic prudence, outward orientation, and domestic liberalization" (Williamson 1990: 1). However, a more comprehensive definition of the Washington Consensus must incorporate other key aspects, such as minimal government intervention and the elimination of government subsidies, trade liberalization, fiscal and monetary austerity, freeing of interest rates, privatization of state-owned businesses, well-defined property rights and independent central banks.

The Washington Consensus was implemented in most developing countries through structural adjustment policies, which became the standard policy instrument of the World Bank in the mid-1980s (Mosley *et al* 1995: 27). Two goals in particular were at the heart of the SAPs: first, at the macroeconomic level, stabilization policies were supposed to guarantee short-run stabilization of inflation, balance of payments, and budget deficits. Second, the goal of SAPs at the microeconomic level was to achieve long-term efficiency gains, through the allocation of resources in accordance with global market signals (Bienefeld 2000: 534). Despite their 'initial macroeconomic success' in bringing down inflation rates and controlling government spending, SAPs have from the very beginning been harshly criticized, particularly by civil society actors, for their immense social costs, and their failure to create 'socially stable' societies. Consequently, the 1980s were regarded by many development commentators as a lost development decade.

The critique of the Washington Consensus outside of the IFIs has been around since its initial formulation in the 1980s. However, only relatively recently did the Washington Consensus come under assault from within the IFIs themselves. Joseph Stiglitz, Chief Economist of the World Bank from 1996-2000, has been the most influential voice involved in criticizing some of the assumptions of the Washington Consensus and articulating an alternative PWC. This consensus is partly based on Stiglitz' academic work on informational imperfections in market economies, which provides the intellectual backbone to this PWC (Fine *et al* 2001: 4). But more importantly, Stiglitz was also the main driving force within the IFIs behind the programmatic articulation of the PWC. Nevertheless, a host of other dissenting voices within the economics profession have also substantially contributed to the demise of the Washington Consensus (*e.g.* Rodrick 1999; Krugman 1995; Easterly 2001).

While the development agencies of the United Nations family have long been outspoken critics of structural adjustment, and have for decades advocated a more poverty-sensitive adjustment process (with a human face) (see *e.g.* UNICEF 1987), the rethinking process among the Bretton-Woods institutions first started within the Bank in the mid 1990s, but with the onset of the Asian financial crisis also spread to the IMF. Within the Bank, there has been a renewed interest in poverty and governance issues throughout the 1990s, which can be observed in the growing importance that the Bank has attributed to poverty related issues in its publications. This rethinking process, as argued earlier, must be understood in the context of the spectacular failure of SAPs and the growing legitimacy crisis of neoliberal capitalism, as evidenced by the immense protests against neoliberal globalization that have materialized throughout the 1990s, culminating the 'battle of Seattle' in 1999. However, this rethinking process is also, at least, partly linked to recent developments in economic theory. As mentioned earlier, Stiglitz played a key role in providing the intellectual backbone to the PWC in the academic sphere, with his information theoretic convergence of neoclassical and Keynesian economics.

The Comprehensive Development Framework

The Comprehensive Development Framework (CDF), which was introduced to the development community by former World Bank president James Wolfensohn in 1999, represents the overarching policy framework under which poverty reduction strategies, the most visible policy tool of the PWC, operate. According to the Bank, the CDF emphasizes the interdependence of all elements of development – social, structural, human, economic, environmental, and financial – and advocates a holistic long-term strategy, focusing on poverty reduction, with the developing country government in the lead, both ‘owning’ and directing the development strategy (Klugman 2002a: 2), and the IFIs taking on the role of a partner in development. The reconceptualization of the relationship between the South and the North as one between partners is an important element of the inclusive-neoliberal development regime which can partly be explained as a response to the persistent and highly contested interventions of the IFIs into developing countries during the era of structural adjustment, leading to accusations of imperialism and neo-colonialism amongst Southern social movements and progressive governments (Abrahamson 2004: 1455). The notion of partnership helps to silence those criticisms by pretending to return power and responsibility to developing countries.

At the same time, the ideas of ownership and partnership address a deep-rooted problem that had been identified earlier by the IFIs: the unwillingness of many developing country governments to voluntarily implement structural adjustment policies and the subsequent failure of conditionality. While many Southern governments have paid lip service to structurally adjusting their economies, they nevertheless have at times not followed through with the implementation of many of the most highly contested policies and have not always met policy conditionalities. As the Bank elaborates in the 2000 World Development Report, “Recipients do not see the [policy] conditions as binding and most donors are reluctant to stop giving aid when conditions are not met” (World Bank 2000: 193). In a more powerful statement made to the news media in 1999, the Bank acknowledges that “conditionality has been unsuccessful: governments fail to deliver on promised reforms and actually hold back from reform in the hope of being able to ‘sell’ the reforms to donors for a higher price – or a second time” (quoted in Cammack 2004: 201).

In this context, the new partnership is seen by the Bank and the Fund (instrumentally) as a way to make development cooperation more effective and efficient and ownership is expected to contribute to a genuine commitment to implementing neoliberal adjustment policies. Therefore, what is unique about the PRS approach is the realization on behalf of the IFIs that a strong consensus around IFI policies in the developing world will make the implementation of adjustment policies less contentious and more probable. In this vein, the IMF argues that:

> Ownership matters because it directly affects program implementation. […] When the program is owned by the country, decisions on such actions are likely to be made quickly and in support of the program, which makes it more likely that the program will succeed. Furthermore, ownership will make it easier to generate domestic political support for the program, since it is likely to be seen, at least in part, as an indigenous product, rather than a foreign imposition (IMF 2001: 14).

In a very similar fashion, Stiglitz notes that “policies that are imposed from the outside may be grudgingly accepted on a superficial basis, but rarely will be implemented as intended” (Stiglitz 1998b: 21). And he continues that “[t]here is likely to be greater acceptance of reforms – and a greater participation in the transformation process – if there is a sense of equity, of fairness, about the development process, a sense of ownership derived from participation, and if there has been an effort at consensus formation” (Stiglitz 1998b: 22). Further, ownership should help to make development aid more effective and efficient. According to the Bank, the “single most important theme running through the dialogue on development effectiveness is the need to put committed developing countries governments and their people at the centre of their development process" (quoted in Abrahamsen 2004: 1455). The CDF can help to create mutual relationships of trust between the Bank and borrowing governments which, in turn, translate into growing commitments to reform processes on behalf of developing country governments.

The IFIs discussion of the relevance of ownership and partnership supports a neo-Gramscian reading, which emphasizes the hegemonic ambitions behind the introduction of the PRS approach, and points to the instrumental use of country ownership as a technology of inclusion, without however neglecting the counter-hegemonic potential of this new approach. This counter-hegemonic potential lies primarily in the inscription of developing countries as agents in the new Bank and IMF discourse. This discursive shift from portraying developing countries as aid partners rather than passive recipients acknowledges the active role of developing countries in shaping their own future and development agenda, rather than seeing them as objects of external benevolence and agency. While the conditionalities attached to PRSs clearly restrain and circumscribe this agency, the discursive reconstitution of developing states as subjects nevertheless carries the potential to open up new possibilities of participation in policy articulation at the global level, as it will be easier for developing countries to disagree over the direction of development strategies in future encounters with the Bank and the Fund.

Inclusive Neoliberalism and Poverty Reduction Strategy Papers

As part of the CDF, the Bank in 1999 introduced with the Poverty Reduction Strategy Paper the most visible policy tool of the inclusive-neoliberal development regime that has been in the making since the articulation of the PWC. The PRSP has been officially incorporated into all IFI development policies and programs and was endorsed in 1999 as the basis of all future IFI concessional lending, as well as debt relief granted under the enhanced Heavily Indebted Poor Country (HIPC) Initiative (Cling, Razafindrakoto and Robaud 2003: 1). Each national PRSP sets out a developing country's macroeconomic, structural and social policies and programs over a period of three years. According to the Bank, the policy content of the document is supposed to be formulated by the developing country itself, and to reflect the country's individual circumstances and characteristics, and its idiosyncratic needs. The principles underpinning the PRS approach suggest that development strategies should be (Klugman 2002a: 3):

- Country-driven and –owned, predicated on broad-based participatory processes for formulation, implementation, and outcome based progress monitoring;
- Results-oriented, focusing on outcomes that would benefit the poor;
- Comprehensive in scope, recognizing the multidimensional nature of the causes of poverty and measures to attack it;
- Partnership-oriented, providing a basis for the active and coordinated participation of development partners;
- Based on a medium- and long-term perspective for poverty reduction, recognizing that sustained poverty reduction cannot be achieved overnight.

Even though the policy content and priorities of each PRSP should reflect the developing country's particular circumstances, values, and priorities, the IFIs have provided a very detailed outline of the issues to be addressed in all PRSPs, and have identified specific policy criteria for the ultimate approval of any and all PRSPs in the two volumes of the World Bank *Sourcebook for Poverty Reduction Strategies* (Klugman 2002a and 2002b). The IFIs have identified four priority areas, which they consider to be imperative in bringing economic growth to the developing world and, which they have turned into conditions that have to be met before concessional lending for a PRSP can be approved. These include sound macroeconomic policies and structural reform policies, such as trade liberalization and banking sector reform; appropriate sectoral policies and programs; improved governance; and realistic costing and appropriate funding for poverty alleviation programs (Klugman 2002a: 16). This constitutes the framework for all discussions around the PRSP, which is elaborated in more detail in the *Sourcebook*. However, at the same time, the Bank asserts that the *Sourcebook* is not supposed to prescribe policies but rather aims to describe 'empirical facts' and 'best practices', and to provide 'technical knowledge' and analytical tools to developing countries (Klugman 2002a: 2). Yet the *Sourcebook* also makes it unambiguously clear that the IFI ultimately have the final say in either embracing or disapproving national poverty reduction strategies: "[w]hile the shift to country ownership will allow more leeway in terms of policy design and choice, acceptance by the Bank and the IMF boards will depend on the current international understanding of what is effective in lowering poverty" (Klugman 2002a: 4).

In both volumes of the *Sourcebook*, the IFIs concretize their understanding of what constitutes the current international understanding of 'sound macroeconomic policy', the non-negotiable precondition for IFI funding and debt relief under the Heavily Indebted Poor Country II initiative. They assert that there is a strong international consensus on what is good structural and macroeconomic development policy, and that this policy package should be universalistically applied to all developing countries. The following section will through a discussion of important policy components of the PRS approach highlight some of the progressive elements, which nevertheless remain circumscribed by a deep commitment to the neoliberal credo of commodification and liberalization. This discussion will also provide a powerful illustration of how the inclusive-neoliberal development regime is full of contradictions and conflicts.

Economic Growth, Macroeconomic Stability, and Redistribution

The *PRSP Sourcebook* opens with a discussion of why economic growth matters for poverty reduction: "Economic growth is the single most important factor determining poverty. Numerous statistical studies have found a strong association between national per capita income and national poverty indicators" (Klugman 2002b: 4). There is continuity in the way in which economic growth is perceived as the *conditio sine qua non* without which a sustainable reduction of poverty will be impossible. And indeed, the case for economic growth is straight-forward and there is no doubt that economic growth will have to play an important role in reducing poverty in most developing countries. However, the key point of the debate around IFI development policies in the past has not been whether growth is good for poverty reduction, but rather whether macroeconomic policies prescribed by the IFIs to developing countries have contributed to economic growth, or contrarily to the contraction of developing country economies. As is widely documented, structural adjustment policies have produced rather meager economic growth rates in most developing countries through out most of the 1980s and 1990s (Wesibrot *et al* 2001).

Moreover, it is important to ask the question of who mainly benefits from economic growth. The Bank acknowledges in the *Sourcebook* that distributional patterns and the sectoral composition of growth are key factors in determining the impact of growth on poverty. As the Bank notes: “A number of empirical studies have found that the responsiveness of income poverty to growth increases significantly as inequality is lowered” (Klugman 2002b: 6). As is both well-documented empirically and commonsensical, growth associated with progressive distributional changes will have a more positive effect on poverty levels than growth which leaves the distribution of wealth unchanged.

Consequently, the Bank maintains that “policies that improve the distribution of income and assets within a society, such as land tenure reform, pro-poor public expenditure, and measures to increase the access of the poor to financial markets, are thus essential to a country’s poverty reduction strategy” as growth alone is insufficient for poverty reduction (Klugman 2002b: 4). This language must come as a surprise to many critics of the Bank, as it touches the politically sensitive topic of wealth redistribution, and acknowledges the need for progressive income *and asset* redistribution. However, as will become clear through the discussion of taxation and fiscal policy, most concrete policy advice actually directly conflicts with this rather progressive stance.

In the subsequent section, the *Sourcebook* discusses the relationship between economic growth and macroeconomic stability, one of the areas where IFI policies have been under heavy criticism for a prolonged period of time. The *Sourcebook* unsurprisingly make a straight-forward case for the importance of macroeconomic stability in achieving poverty reduction. According to the IFIs, macroeconomic stability is essential for economic growth, without which it will be impossible to reduce poverty in a sustainable manner. It is recognized that there might be temporary trade-offs between macroeconomic stability measures and poverty reduction. However, these should be addressed through appropriate compensatory measures, rather than by giving up the goal of macroeconomic stability and sacrificing long-term growth to a short-term policy view. Stability has to be privileged as poverty reduction will only be sustainable if achieved through a growth in output which requires economic stability and confidence among investors and entrepreneurs (Klugman 2002b: 5).

Macroeconomic stability is defined by the IFIs in terms of current-account and fiscal balances with low and declining debt levels, inflation in the low single digits and rising per capita GDP, whereas instability is understood to encompass large current account deficits financed by short-term borrowing, high and rising levels of public debt, double-digit inflation rates, and stagnant or declining GDP (Klugman 2002b: 5-8). Inflation-targeting, non-inflationary budgets and independent central banks are the seen as the predominant means through which to achieve macroeconomic stability.

The key aspects of the IFI discussion on stable macroeconomic policy are the relationship between inflation and growth performance, on the one hand, and inflation and distribution of wealth, on the other. In this context, it is pertinent to point out that there is, contrary to the IFIs grandiose claim, a lack of consensus on the relationship between inflation and growth in academic circles. According to the IFIs, conventional economic wisdom (*i.e.* the 'technical knowledge' that the IFIs refer to) suggests that low levels of inflation are conducive to growth and that disinflation largely insulates the poor from the regressive changes in income distribution associated with inflation (Klugman 2002a: 4-5). In a sense, not much is new in the IFIs emphasis on 'sound macroeconomic policies' as the precondition to economic growth and development.

This view is however highly contested in academia. In his seminal lecture on the PWC, Stiglitz points to empirical evidence (Barro 1997 and Fisher 1993) that corroborates his view that mild inflation rates up to 40 per cent have little demonstrable impact on growth performance (Stiglitz 1998a: 8). Accordingly, Stiglitz ardently criticizes the IMFs obsession with low inflation rates, which dramatically curtails the ability of developing country governments to spend freely on poverty-related issues. Moreover, Stiglitz is not alone in his criticism of inflation-targeting and tight monetary policy. As UNCTAD has recently commented, inflation does not seem to be a major concern in most developing countries at this point; yet, disinflation remains to be prioritized by the IFIs on the ground (UNCTAD 2002: 24).

This unwavering commitment to tight monetary policy is problematic as it might translate into lower output growth and higher levels of unemployment, and therefore undermine the IFIs laudable attempt to reduce poverty through economic growth (UNCTAD 2002: 24). What is more, the poor themselves appear to be less concerned with the impact of high levels of inflation on the distribution of wealth than with the negative impacts of disinflation on employment and economic growth. As UNCTAD notes, ironically drawing on the Bank's famous study *Voices of The Poor*:

> It is significant that the African poor, when they express themselves on matters related to macroeconomic policies, do not consider inflation as a major issue affecting their welfare. The stability that they aspire is stability in employment and constant and regular sources of income. The rural poor in Ethiopia and Nigeria stress that contractionary macroeconomic policies resulting in lower employment and declining wage bills in the public sector affect their own livelihoods adversely by the ripple effects of declining effective demand (UNDP 2002: 24).

However, possibly even more disconcerting (than the arguably negative impact of low levels of inflation on growth and output) is the fact that inflation-targeting substantially reduces developing country governments policy options in times of economic recession. Important counter-cyclical government policy instruments, such as deficit spending and the provision of inexpensive credit, which are taken for granted in the West, have become unavailable to most developing countries during the era of structural adjustment and the application of monetarist policies. The fact that the IFIs seemingly continue to universally promote the same set of tight monetary policies, described as 'best practice' in the *Sourcebook*, raises concerns as unorthodox and idiosyncratic macroeconomic policies might be better suited to address developing countries' often unique macroeconomic problems, particularly during short-term balance of payments crises (McKinley 2004). Unfortunately, almost all developing countries have adhered to the IFIs monetary advice and have set aggressive inflation targets in their PRSPs, mostly hovering around three per cent (Gottschalk 2005: 429). This clearly limits any hope of subsidizing the consumption of the poor as government spending is aggressively reined in and under observation by independent central banks.

Fiscal Policy and Taxation

The *Sourcebook* acknowledges that fiscal policy can have a direct impact on the poor and developing country budgets are ascribed an important role in poverty reduction strategies. Budgets are of paramount importance as resources made available through the numerous poverty reduction and official debt cancellation programs, such as the HIPC II initiative and the more recent Multilateral Debt Relief Initiative (MDRI), are expected to be channeled through budgets into poverty-sensitive areas, such as health care, education, and infrastructure, particularly in rural areas. More importantly, additional external resources freed up through debt relief are supposed to be added to expenditures already earmarked for social sectors, guaranteeing the delivery of essential public services, while non-discretionary and discretionary non-priority spending is to be examined, in order to insulate the economy from inflationary pressures (Klugman 2002b: 12). Thus, the IFIs expect developing country budgets to be generally non-inflationary yet poverty-sensitive. This focus on poverty-sensitive budgets is definitely to be welcomed. This can be observed in many developing country budgets where social expenditure has increased notably since the introduction of the PRSP approach (Driscoll and Evans 2005), particularly in areas such as health care and education, areas which have been persistently neglected during the reign of the Washington Consensus. However, the misplaced concern with inflation clearly limits the extent to which governments can add resources to their budgets in poverty-sensitive areas.

Another important long-term goal for most developing countries should be "to raise domestic revenue levels with a view to providing additional revenue in support of their poverty reduction strategies" (Klugman 2002b: 13). As external resources will eventually dry up after the HIPC II and the MDRI debt relief initiatives have been fully implemented, it is important for developing countries to attain growth in public revenues to be able to increase social spending. Moreover, developing countries have historically had rather low levels of government expenditure compared to industrialized countries. While government expenditure in the OECD countries has risen from 20 per cent of GDP in the 1960s to almost 50 per cent of GDP in 1995, in developing countries average government expenditure has barely passed 30 per cent of GDP in 1985 and since then slowly declined to roughly 28 per cent in 1990 (World Bank 1997: 2). In this regard, it is of utmost importance for developing countries to find ways to raise the necessary resources in the gargantuan fight against poverty. To increase levels of taxation, which have historically been rather low in developing countries, would be one possible solution.

According to the World Bank, tax policy should aim at moving toward a system of easily administered taxes with broad bases and moderate marginal rates. The general recommendation is to avoid raising taxes on corporate and personal income, given their alleged adverse effects on investment and capital flows, and instead to introduce a broad based consumption tax. According to the *Sourcebook*, the 'best tax systems' generally include "a broad-based consumption tax, such as a VAT, preferably with a single rate, minimal exemptions, and a threshold to exclude smaller corporations from taxation", while "the personal income tax should be characterized by only a few brackets and a moderate marginal tax rate" (Klugman 2002b: 13). The same counts for the corporate income tax, which "should be levied at one moderate rate" (Klugman 2002b: 13). Finally, "taxes on trade should play a minimal role. Import tariffs should have a low average rate and a limited dispersion of rates to reduce arbitrary and excessive rates of protection" (Klugman 2002b: 13).

As UNCTAD notes, the tax regime described by the Bank as the 'best tax regime available' is actually a highly regressive tax regime, in which poverty is undoubtedly being augmented through the negative effects of consumption taxes on the poor (UNCTAD 2002: 27). Even the Bank has recently acknowledged that indirect taxes tend to increase poverty as they are generally regressive (World Bank 2001: 70). However, this does not lead the Bank to question regressive taxes in favor of higher direct income and business taxes, which could play an important role in the redistribution of income and assets. Rather the Bank suggests that the negative effects of regressive taxes should be temporarily offset through the expenditure system. Again, there seems to be a contradiction between the goal of poverty reduction and the actual policy advice that is given to developing countries in the area of taxation. The recommendations emerging in the area of taxation under the inclusive-neoliberal development regime rather than contributing to poverty reduction have the potential to substantially worsen the situation of the most disfavored and oppressed in society, depending on what kind of compensation policies will go hand in hand with the introduction of regressive taxes.

Liberalization of Finance and Trade

The *Sourcebook* is also very clear when it comes to the issues of trade and financial liberalization. In the *Sourcebook*, financial and trade liberalization, policies that have been at the heart of the Washington Consensus, are considered pro-poor policies. The elimination of financial repression (*i.e.* directed and subsidized credit through artificially low interest rates) and the move toward market-determined interest rates and credit allocation are expected to generally improve resource allocation. More than that, financial liberalization will also provide poor people "access to safer assets, […] incentives to save, and access to credit markets" (Klugman 2002a: 22). However, this 'technical knowledge' is highly contested as many IFI critics believe that financial liberalization has, in fact, contributed to the exclusion of the poor (and particularly poor rural farmers) from credit as interest rates have generally shot up drastically in the aftermath of liberalization, with credit becoming unaffordable to the poor (UNCTAD 1998).

Moreover, as poor people tend not to own property that could serve as collateral, they are usually denied access to credit by financial institutions operating under the profit motive. Micro-credit schemes might have mitigated the overall negative effects of financial liberalization on the poor, and indeed many PRSPs discuss these schemes as a way to alleviate rural poverty (Gottschalk 2005: 424). But it is important to keep in mind that interest rates in micro credit schemes are often horrendously high, reaching up to 30 per cent, and that peer-pressure makes it essentially impossible to default on loans. Additionally, high interest rates have due to the liberalization of credit placed heavy burdens on governments as the servicing of domestic debt becomes more expensive and resources are being diverted from the productive towards the financial sector. Finally, high interest rates have arguably had a negative effect on private investments in most developing countries, where private investments have stagnated as it is more profitable to simply park money in a high interest yielding bank account than to invest in productive activities (UNCTAD 2002: 29). Again, there is no consensus that financial liberalization should be considered pro-poor policy as there are many convincing arguments that it has, in fact, had an overall negative impact on the poor.

The topic of trade liberalization is discussed at length in a separate chapter in the *Sourcebook*. Overall, the Bank sticks to its well-known, conventional view that trade liberalization benefits the poor as it is essential for economic growth, but also because it improves income distribution. The Bank asserts that "trade liberalization can therefore be expected to help the poor overall, given the positive association between openness and growth" (Klugman 2002b: 30). At the same time, the Bank acknowledges the potential negative short-term effects of trade liberalization on the poor. According to the Bank, "[o]verall, individual country studies suggest that adjustment costs are low relative to the gains from liberalization; however, the extremely poor may be incapable of sustaining themselves even for short periods under adverse adjustment costs" (Klugman 2002b: 33). This leads to the conclusion that "complementary policies – particularly the provision of an effective social safety net – are therefore necessary to minimize adjustment costs and to help make trade reform work for the poor" (*ibid*). Additionally, sequencing of trade liberalization is seen as an alternative to speedy, across-the-board liberalization as it will allow market participants to slowly adapt to the new environment. Finally, the Bank reassures us that "[i]n general, attaining and sustaining a high rate of economic growth is a key factor in improving outcomes for the poor over time" (*ibid*). And trade liberalization is expected to bring about economic growth, more employment, and higher wages in developing country economies, ultimately contributing to the overall goal of poverty reduction.

However, as UNCTAD points out, recent studies on trade liberalization have come up with fundamentally opposed conclusions. Again, the Bank's view is not uncontested in academia and amongst other multilateral institutions. According to these alternative studies, trade liberalization has not only contributed to higher levels of unemployment in developing countries (Buffie 2002: 190), but also led to growing wage inequality, generally disfavoring unskilled workers (UNCTAD 2002: 35). Poor and unskilled workers have often seen their wages fall during the liberalization process, with declines exceeding 20 per cent in many cases (UNCTAD 1997). This view contrasts sharply with the Bank's expectation that liberalization will actually bring up the wages of the unskilled and poor (Klugman 2002b: 31). At the same time, trade liberalization can have extremely unfavorable overall effects on developing country economies as increased foreign competition oftentimes leads to the closure of domestic industries, with an even greater effect on unemployment, pay, and poverty (UNCTAD 2002: 37). In fact, many critics of the Bank argue that the most open developing countries have performed worse than more protected economies over the last 20 years when it comes to economic growth. As Ray Kiely points out, "the evidence suggests that trade liberalization does not have the outcomes that the Bank expects, and that poverty has actually increased among LDCs with the most open trade regimes" (Kiely 2004: 10).

While most of these alternative studies do not deny the importance of trade and world market participation, they however acknowledge that integration only makes sense if domestic companies are in a position to successfully compete against foreign competitors. Otherwise, liberalization will simply result in de-industrialization and the disappearance of indigenous industries, with all the negative side effects associated with de-industrialization. In fact, World Bank advice in the *Sourcebook* makes it seem difficult for developing countries to pursue limited, time-bound protection for infant industries so as to provide an opportunity of actively promoting the development of an industrial sector. This is however the development path that almost all developed countries, including the East Asian Tiger states, have chosen in the past (Chang 2002; Wade 1990).

Again, most PRSP countries seem to stick rather closely with the IFIs advice on trade liberalization, and a number of developing countries that form part of the PRSP initiative have started to further reduce their already low levels of protection of the economy (UNCTAD 2002). While short-term compensation might help to alleviate the most apparent negative impacts of trade liberalization, and should therefore be welcomed, it does nothing to arrest the growing inequality in income distribution which clearly undermines the central goal of poverty reduction.

Privatization of Public Utilities

Finally, the IFIs continue to openly and avidly support the privatization of public utilities in developing countries, in many cases effectively linking debt relief to the privatization of public utilities. It is argued that that privatization will contribute to economic growth, and lead to a general improvement in service delivery through extended coverage and better access. As the Bank argues, "[t]he overarching rationale for privatization is its potential to create more efficient firms and stimulate economic growth, generating the conditions for poverty reduction" (Klugman 2002b: 286). While the Bank might be less enthusiastic than in the past and more sensitive to the necessary pre-conditions of successful privatization, such as competition and effective regulation, the goal of privatizing public utilities nevertheless remains in place. This less enthusiastic treatment of privatization is also linked to the fact that privatization has recently stalled in practice, particularly in Africa, as a result of opposition from developing country governments, local social movements, and lack of interest from international investors. However, the privatization of public utilities clearly remains a top priority on the IFIs agenda as utility privatization was in many developing countries turned into a pre-condition for debt relief under the HIPC II initiative.

Again, development economists and social movement activists have widely questioned the IFIs' notion that privatization represents a pro-poor policy choice, and that utility privatization will unambiguously help in the attempt to reduce poverty and contribute to promoting economic growth and development in the periphery. Rather, study after study demonstrates the negative impacts of the privatization of essential services and public utilities on the poor and marginalized in society (*e.g.* SAPRIN 2003, Bayliss 2003). Moreover, many recent reviews of the privatization of public utilities have completely questioned the rationale for privatization. As Bayliss' review of water privatization in sub-Saharan Africa suggests, private ownership is not a miracle cure for poor enterprise performance. Rather, privatization has worked well where utilities have already been performing well prior to privatization; however, privatization has not contributed to performance improvement where this was not the case (Bayliss 2003: 526). At the same time, the need for investors to make profits has tended to put upward pressure on prices. These price increases often happened prior to privatization as part of a reform process in which public utilities are made more attractive to international investors.

There are many good reasons as to why privatization is highly contested within the development community, and the IFIs themselves have recently begun to acknowledge some of the negative side-effects of privatization, in particular escalating prices, and the need to offset these through different forms of subsidization. Unsurprisingly, prices for essential service have in most cases not come down in the aftermath of privatization as predicted by the Bank, which expected efficiency gains to translate into lower prices (Klugman 2002b: 286). The need to recover cost and generate profits has in many cases driven prices up to levels unaffordable to the extremely poor (Bayliss 2003: 516). Consequently, developing country governments are expected to subsidize the extremely poor through taxpayer revenue or revenue from other service users in order to guarantee universal access to privatized services in sensitive areas such as health care provision, education, water provision, or in other areas where service provision is critical to the health of poor people (Klugman 2002b: 286).

Again, the Bank does not break with the neoliberal logic of commodification but rather acknowledges the need to subsidize those that cannot become ‘normal’ customers and effectively participate in market transactions. Through subsidizing poor market participants, the IFIs attempt to make markets fully functional, sustainable, and hegemonic until they do not require further subsidization. While all the elements of inclusion through compensation and subsidization discussed in the *Sourcebook* must be seen as a minor victory in the fight for poverty reduction, the neoliberal logic of commodification and the market colonization of all aspects of social life are not fundamentally challenged in the inclusive-neoliberal development model that is promoted under the tutelage of PWC.

Participation as a Technology of Inclusion

The idea of civil society participation is a new element in the discourse of the IFIs that has been operationalized with the introduction of the PRSP approach. As noted earlier, one of the declared aims of the PRSP process is to broaden the participation of civil society, and especially of the poor themselves, in the design of the poverty reduction strategies. The inclusion of civil society actors and the poor themselves represents an attempt to discipline and integrate some of the most fierce critics of the neoliberal policy paradigm into the policy-making process, a process in which the parameters of the final product (inclusive neoliberalism) have however already been established.

Indeed, the term participation itself is highly ambiguous and carries different meanings for different actors. According to the *Sourcebook*, the mechanisms of participation can be participatory research (*i.e.* perceptions of the poor), information dissemination, consultation – informal and structured – and the formation of committees and working groups on issues dealt with in the PRSP (Klugman 2002b: 238). Moreover, the World Bank also emphasizes the need to reach a wide range of stakeholders and to engage local level stakeholders in the participation process in order to build a country-wide consensus around poverty reduction efforts (Klugman 2002b: 245). In doing so, developing country governments should attempt to build partnerships between policymakers, service providers, and local constituents (Klugman 2002b: 246). This understanding differs widely from the understanding of civil society groups, for which participation involves the actual transfer of power to the poor, and their ability to participate in the decision-making processes in order to shape and implement policies that are in their own interests.

Unlike with the policy component of the PRSP, which is evaluated by the IFIs and either endorsed or declined, there is no in-depth analysis of the participation process and the extent to which CSOs participated in the formulation of national PRSPs. The World Bank stresses that the participatory process itself will vary greatly from country to country as each country is blessed with peculiar government structures, a unique set of social institutions, and an idiosyncratic history of civil society participation (Klugman 2002a: 5). According to the IFIs, this means that it is essentially impossible to develop a blueprint for participation, which could serve as a guide to the implementation of participation or for the evaluation of participation. As the World Bank argues, "there is no blueprint for participation, especially at the macro-economic level. On the contrary, there are a number of choices given a country's particular context, its starting points, what is considered feasible in that country and what outcomes it hopes to achieve" (Klugman 2002b: 238). But this also means that the quality of participation will not be evaluated by the IFIs according to any fixed criteria, a fact that has been problematized by many non-governmental organizations; as long as disregarding civil society voices has no direct impact on IFI funding, governments will not feel a strong incentive to incorporate the views of civil society actors into national PRSPs.

As the participation of civil society is not being evaluated by the IFIs, critical voices have suggested that participation must be seen as an attempt to disarm the most active critics of the IFIs by co-opting them into the policy process (Bond 2004, Cammack 2004). This seems plausible given that participation is by a variety of development stakeholders understood to be essential if social structures are to change and adjustment policies are to be implemented. It is thought by the IFIs that if civil society is engaged in programs and projects from the outset, then there is a greater likelihood that they will be accepted. As Wolfensohn points out in the proposal for the Comprehensive Development Framework, "[d]epending on local circumstances, civil society has a greater or lesser voice, but our experience is that by engaging civil society in projects and programs, better results are achieved both with design and implementation and usually greater effectiveness" (Wolfensohn 1999: 9). In this vein, the World Bank argues in the *Sourcebook* that "[n]egotiation between stakeholders over priorities can lead to broader ownership and a more widely accepted consensus around development policies" (Klugman 2002b: 241).

Thus, as neo-Gramscian theory suggests, the main goal of participation seems not to be the incorporation of alternative ideas by civil society into national PRSPs, but rather the creation of a consensus around the content of the PRSP, whose parameters have been defined by the IFIs before participation even begins. Inclusive neoliberalism has appropriated participation only to turn it into a policy tool to better control and discipline civil society agents and the poor. It is however unlikely that this co-optation strategy will be successful, as the lack of real participation has further politicized and radicalized many civil society actors and has further contributed to counter-hegemonic anti-neoliberal struggles in many PRSP countries, particularly in Latin America (*e.g.* Kohl 2002; Ruckert 2006; see also Hickey and Mohan 2004).

Conclusion

This paper has provided a description of the shift from structural adjustment to poverty reduction policies within the IFI development discourse and highlighted some of the elements of the new PRSP approach. The rising criticism of the neoliberal adjustment policies and their failure to deliver robust economic growth and to contribute to poverty reduction in the developing world have prompted the IFIs to reorient their development approach away from the Washington Consensus-informed structural adjustment policies. As a result, the IFIs have reframed their development approach through the PWC and have introduced the concepts of country-ownership, participation, and poverty reduction into the development debate. Moreover, the IFIs have pledged to take a ‘back-seat’ and let developing countries determine their own development policies and priorities.

While many critics have questioned the extent to which this shift is real and not merely rhetorical, this paper has suggested that a novel inclusive-neoliberal development regime is materializing through the Comprehensive Development Framework and the implementation of national PRSPs. However, this new regime is itself laden with numerous contradictions and does not resolve many of the problems of uneven development in the world economy (Harvey 1985). Quite to the contrary, the CDF and the PRS approach represent an institutionalized expression of the contradictions of capitalist social relations manifest at a plethora of different levels (Taylor 2004: 167). The central contradiction of this new consensus is the incompatibility of neoliberal macroeconomic and poverty-sensitive social policies. Despite the absence of positive development results from neoliberal macroeconomic policies, the Bank and especially the Fund still seem to be unwilling to move substantially beyond their neoliberal macroeconomic policy prescriptions, which informed the era of structural adjustment.

In a sense, inclusive neoliberalism is a totalizing force that is full of complex contradictions and compromises in as far as it attempts to incorporate and neutralize its critics and to provide material incentives to the disempowered masses, while at the same time adhering to the basic principles of neoliberal commodification and market colonization of the lifeworld. It introduces new selectivity and policing mechanisms which tighten criteria for access to development funds, by linking debt relief (and the promise of inclusion) to ever more stringent conditionalities, while claiming that developing countries now ‘own’ their poverty reduction strategies, and are therefore fully responsible for the implementation and development results of each and every PRSP. Finally, inclusive neoliberalism is a shallow social compromise (compared to the post-war social-liberal welfare state) in that it does not aim to decommodify important aspects of life through the granting of social citizenship rights (Esping-Andersen 1990) but rather focuses on the subsidization of consumers in the context of privatization. It therefore fits nicely within the wider neoliberal project, which is based on accumulation by dispossession (Harvey 2003) and more recently subsidization. In the PRSP approach, it is however ‘unfit market participants’ not corporations that are subsidized by public monies in an attempt to reproduce stable markets in highly sensitive areas, such as in the provision of health care and water. This implies that it is problematic to suggest that the turn to inclusive liberalism is only a juridical and rhetorical turn, completely lacking elements of (material) compromises (Craig and Porter 2005: 233). However, it seems highly unlikely that the scant material incentives given through PRSPs will suffice to produce a truly hegemonic neoliberal order on a global scale.

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