# Reforming the Legacy of the Washington Consensus Through Accountability-Focused Corporate Social Responsibility

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## Introduction

Coined by economist John Williamson in 1989, the term "Washington Consensus" was a summary of OECD-recommended structural adjustment reforms intended to resolve the ongoing Latin American debt crisis (Williamson, 2004). These new principles were based on the belief that the State should restrict its economic involvement and that the private sector was the preferred means of production, distribution, and exchange (Tribe, 2021). The original ten policy instruments of the Washington Consensus advocated for decreased State intervention and strong macroeconomic liberalization reforms, including tax reforms, trade liberalization, privatization, and deregulation. While the Washington Consensus had initially intended to be applied only to a specific context, in the ensuing months Williamson argued that other "lagging" countries should adopt the policy instruments prescribed by the Washington Consensus (Williamson, 2002). Although Williamson had not intended for the Washington Consensus to be a "comprehensive agenda for economic reform" (Williamson, 2004), the Washington Consensus has had a lasting negative legacy within the international economic development sphere that has extended far beyond its intended parameters. The term has since become synonymous with a broad "one-size-fits-all" range of neoliberal economic policies for developing countries that were advocated for by international financial institutions such as the World Bank and IMF (Tribe, 2021).

## Negative Global Repercussions

Much criticism has been levied at the Washington Consensus since its creation, including the assertion that developing countries are encouraged by proponents of the Washington Consensus to cut taxes for corporations, open their financial systems, and remove trade protections to ensure market access for foreign corporations (Moosa, 5). Indeed, many caveats on the benefits of privatization within developing countries have been made over the years, including by Williamson himself. In his 2004 follow-up, Williamson stated that although evidence supports that privatization can be beneficial when implemented properly, this is highly dependent on the implementation strategy. Implemented incorrectly, privatization can be a highly corrupt process that transfers assets for a fraction of their value to a privileged elite (Williamson, 2004). Direct foreign investment in developing countries increased rapidly beginning in the 1980s, and it accounted for three-quarters of total proceeds by the end of the 1990s. While privatization was found to increase the resources available in a country's economy, including those available to governments, few privatizations resulted in gains for all stakeholders, including workers (Tribe, 2021).

## Corporate Social Responsibility

According to a 2005 study by the IDPM, although privatization can improve economic performance, this improvement relies on other structural and institutional reforms designed to provide the necessary conditions for market efficiency. Therefore, privatization objectives should include not only improved economic efficiency but also poverty reduction and other long-term economic development strategies (Tribe, 2021). In order to accomplish this, preconditions should be set to ensure successful privatization, including a better regulatory and institutional framework that includes a well-functioning capital market and the protection of consumer and employee rights (Tribe, 2021). Evidence supports that governmental participation and regulation within the private sector is crucial, but this condition may prove to be a barrier in developing countries that have weak state regulatory capacity. The lack of proper regulation of foreign industry leaves developing countries vulnerable to exploitation and significantly decreases the positive effects of privatization. According to the UN, when businesses are operating in an area with weak governance there is also a higher risk of infringing human rights due (UN, 2023a). Therefore, top-down regulation of the private sector itself potentially offers a solution. But how can regulatory reforms be introduced to create a system that will ensure accountability for foreign companies operating within developing countries?

While Williamson's original Washington Consensus advocated for deregulation, Williamson later amended this principle with the caveat that deregulation should be used to lower barriers to entry and exit and not to abolish safety or environmental regulations (Williamson, 2004). In recent years, Corporate Social Responsibility (CSR) has emerged as a potential solution to addressing the aforementioned negative effects of unregulated industry. CSR is a broad range of national and international standards, and despite implementational differences, they have the common objective of advancing the social, ethical, and environmental performance of organizations through codifying aspects of organizational behaviour (de Colle, Henriques, Sarasvathy, 2014). There is an overwhelming number of international CSR standards that have been developed in the past decade, and while several iterations of a comprehensive classification have been made, none represent an official standard (de Colle, Henriques, Sarasvathy, 2014). Several high profile private companies, such as Kering, have also created their own internal CSR standards (Kering, n.d.). However, this often leaves no external accountability mechanism or public transparency; in the case of Kering, it does not publicly disclose its sustainability-related financial statements (Paton, 2017). The adoption of a comprehensive CSR standard would enable organizations to adopt codified practices and processes that would lead to a broader uptake of CSR and ensure that CSR regulations were standardized. Several notable examples of CSR standards are already in existence. ISO 26000:2010 is a set of voluntary standards intended to help companies implement CSR. However, unlike other ISO standards, it only provides guidance as opposed to certification (Fernando, 2022). B Corp is another organization that provides a CSR certification, however, it only certifies for-profit companies, and nonprofits and organizations that receive funding or grants from governments or charities are ineligible. This is problematic in the context of international development, as privately funded development NGOs have became increasingly significant within the development realm (OECD, 2023). Companies from certain industries, such as oil and gas or mining, are also usually ineligible for B Corp certification (BDC, n.d.). Therefore, I would like to propose an alternative solution.

**Solution: Accountability-Focused Corporate Social Responsibility Standard (ACSR)**

According to the UN, businesses should undertake due diligence to avoid harming human rights and should address any adverse human rights impacts that may be caused by their activities (UN, 2023b). As business scope has widened due to globalization, human rights issues have become increasingly important within the corporate sphere, as companies have been able to expand their operations into countries previously untouched by global markets (UN, 2023b). Therefore, it is more important than ever to establish an international regulatory standard for multinational businesses. I would like to propose a defined, certifiable, Accountability-focused CSR standard (ACSR) that provides corporate incentives for adoption. This model would focus on corporate accountability from the top and create a regulation standard specifically designed for companies operating in developing countries. Because one of the current limitations of CSR is its lack of a codified standard, the most important aspect of ACSR would be to develop a comprehensive metric. The UN Global Compact would be used to create this metric, with a specific focus on the first six principles, which are focused on the social dimension of corporate sustainability and human rights (UN, 2023b). Like with the B Corp certification, ACSR would be certifiable, and certified companies would be publicly listed on an online database. Compliance with ACSR would also be included in yearly corporate financial audits so that investors would be aware of how their capital is being used.

Another advantage of using the CSR model is that CSR has recently been gaining momentum and wide adoption within the corporate world. In 2019, an estimated 90 percent of companies on the S&P 500 index published a CSR report, compared to 20 percent in 2011 (Stobierski, 2021). While this is a promising development, one of the primary limitations of CSR is its high cost, and the process of adopting CSR standards, as well as obtaining external certifications, can represent a significant cost that is unfeasible for small and medium-sized enterprises (de Colle, Henriques, Sarasvathy, 2014). Therefore, in order to lower this economic barrier, financial incentives (in the forms of tax benefits and wage subsidies) would be offered to companies that implement ACSR. In order to address the issues with the internal auditing process of many current CSR standards (such as those implemented by Kering), an independent monitoring and reporting process would be implemented by a qualified thirdparty (similar to the auditing process of the AA1000 Standard), which would ensure that the requirements of the ACSR are being complied with (de Colle, Henriques, Sarasvathy, 2014). While the ACSR would still be adopted on a voluntary basis, the financial incentives would offer greater incentives for adoption, as well as make CSR accessible to a broader range of companies.

**Limitations:**

Although the ACSR offers a promising regulatory solution, several limitations still exist. The primary limitation of the ACSR is its top-down approach, and while it provides a baseline, each context would also have to be assessed case by case. The ACSR standard would be complemented with additional principles and measures tailored to national economic circumstances and local conditions. Without the inclusion of nuance, ACSR could potentially have the same negative effects as the "onesize-fits-all" approach associated with the Washington Consensus. Financial barriers may continue be a barrier for some companies. While financial incentives would be offered to companies who choose to implement ACSR, other forms of incentivization would perhaps be needed to encourage engagement. Lastly, because of the international scope of this solution, the creation of the ACSR standard would also be contingent on significant buy-in from international organizations such as the United Nations, the World Bank, and the IMF.

**Conclusion**

There is perhaps no literature that can claim a greater legacy within modern international economic development than the Washington Consensus, and although it was initially created for a specific context, it soon came to stand for the broad neoliberal re-ordering of global economies. The focus on the liberalization of foreign exchange markets and international trade resulted in a prioritization of reducing state control and "opening up" developing and transitional economies (Tribe, 2021). However, in the years since, then negative effects of improperly regulated foreign industry within developing countries have been apparent. Aside from exploitation, the shifts resulting from the global privatization process have resulted in alternative avenues and a larger scope for corruption (Tribe, 2021). In fact, there is now considerable literature focused on international illicit financial flows, which demonstrates that a major distortion in international economic transactions occurs predominantly within the private sector (Tribe, 2021). Because of this, there is an impetus for regulation, transparency, and accountability within the corporate sector, which has been further highlighted due to the effects of globalization (UN, 2023b). In recent years, CSR has emerged as a promising development within the field of corporate ethics. My proposed solution, Accountabilityfocused CSR, provides a codified metric and third-party certification while also providing financial incentives to encourage adoption of the new standard. With wide adoption of ACSR, it would become a new regulatory standard that would ensure that private companies operating in developing countries are complying with corporate sustainability principles and ethics. ACSR would create the necessary preconditions for a future with regulated, transparent, and socially conscious globalized private enterprise.

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