On Designing Economic Policy

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Outline

• Policies in normal times (e.g. the West prior to the Global Financial Crisis)
• Policies confronting a crisis
• Prolonging normality
Policies in Normal Times

• Monetary policy: inflation stabilization
  – Plus regulation (2 instruments for the 2 objectives of price and financial stability)

• Fiscal policy:
  – Aim for net debt/GDP = 0
  – Use built-in stabilizers

• Exchange-rate policy
  – Not redundant because world is not REEM
    • REEM = rational expectations, efficient markets
  – Primarily, not exclusively, by oral intervention.
Crises (aka Abnormal Times)

Aslund’s twelve rules:
• Recognition
• New leadership
• Clear principles
• Concentration
• Change of constitutions etc
• Program should be comprehensive, consistent, credible
• Don’t seek consensus
• Transparency
• International support
• Finance
• Early and decisive implementation
• Curb expenditures but maintain equity
Perpetuating Normality

Perpetuating normality requires removing the punchbowl just when the party is going
So the problem is fortifying the political resolve
• Value of fact-checking
• Fiscal rules
  – But they either are cyclically destabilizing or else riddled by exceptions
• Fiscal councils
Perpetuating Normality II

• Try to generalize/fortify “election watchdogs”
• Two models exist: the Dutch CPB and the UK IFS
• CPB is part of government but trusted by populace
  – Issues a report pre-election comparing the policies of the parties
  – Costs include bias toward policies that are well-measured by CPB’s model and against those whose benefits are not measured by the main model
• IFS is an NGO that has probably made less impression on the British electorate
  – Series of Briefing Notes rather than comprehensive report
Possible Fortification of Election Watchdogs

Have to consist Predominantly of Economists

• How to Achieve a Useful Measure of Professional Agreement
  – Restrict questions to the economic
  – Selecting the panel of economists
    • Choose a pool approved by all the parties
    • Then the parties pick candidates from the pool

• How to Have Prognostications Taken Seriously by Electorate
  – Gradual process
  – But many electors are tired of half-truths

• How to Get the Politicians to Accept Them
  – Political acceptance is integral to this proposal.