The World According to John Williamson: Part I

John Williamson, who is retiring at the end of 2012, reflects on a career of challenging shibboleths and why he calls himself a “saltwater economist.”


Steve Weisman: John Williamson, senior fellow and beloved and brilliant colleague at the Peterson Institute for International Economics, is being honored on the occasion of his retirement at the end of the year with a book of essays about his contributions to the economic policy profession. This is Steve Weisman welcoming John to a discussion and maybe some reflections on your career in the profession. Welcome, John.

John Williamson: Thank you very much.

Steve Weisman: John, let me start asking you about your own essay in this book about your personal evolution. At the beginning of your career you started out as an economist and then gravitated to economic policy making. Tell me about why you drifted into that.

John Williamson: It was very much function of the fact that I was in the British Treasury at that time. I had wanted to go in the Treasury for a while because I was curious to find out if people in policy-making circles have that extra degree of knowledge that they always gave the impression they had, and, if so, from where it came. And I discovered, of course, they didn't really have it, that it was all a veneer.

Nevertheless, I wanted to enter the British Treasury to find this out, but there was a big problem, that the word “devaluation” was a proscribed word in the Treasury at that time. So it was only after the devaluation of the pound had actually happened that I was able to enter the Treasury. I professed my interest and was taken up on it and entered at the Treasury at that time.

I discovered there that I really had a comparative advantage—not in pure theory as I'd fondly imagined, but instead in knowing which of the various types of theory around were relevant to a particular situation. That was the particular niche that I felt that I could fulfill most adequately, and which I therefore came to fill in the subsequent years.

Steve Weisman: Proscribed?

John Williamson: Proscribed. Prohibited in the British Treasury in the ’60s when I was of the age to enter. So it was only after the devaluation of the pound had actually happened that I was able to enter the Treasury. I professed my interest and was taken up on it and entered at the Treasury at that time.

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Steve Weisman: When you mention this ban on devaluation, of course, these were the first decades after the end of World War II and the pound was constantly under attack. Was this a shibboleth that you saw as something that they needed to change their thinking on?

John Williamson: Very much so. In fact, I seconded a resolution at the assembly of one of the major political parties of Britain, calling for devaluation of the pound by the responsible means of a crawling peg in the previous year. That was what the British Treasury weren't willing to discuss -- the possibility of a devaluation of pound. It was totally an unpatriotic subject.
Steve Weisman: Unpatriotic.

John Williamson: Unpatriotic. Yes.

Steve Weisman: Did this set you on a course of challenging conventional wisdom, do you think?

John Williamson: I think that there's sometimes been that accusation. In fact, I'm more often on the side of the conventional wisdom than against it. I think you need to ask yourself whether what passes for conventional wisdom at a particular time is right or wrong. Most often it's right, but sometimes people get things totally wrong, and then it's necessary to stand up and say so.

Steve Weisman: That's a good segue into another interesting thought, jumping 50 years into the future, that the economists have gotten a lot wrong in the years leading up to the crisis starting in 2007 and 8. You say, “We economists failed.” Tell me a more.

John Williamson: I said that I think economists failed. The Queen of England said the same thing when she visited the London School of Economics in 2008-2009. She said the same thing and I'm merely echoing that thought. I think economists did get things wrong. I think that we were over-mesmerized by assuming that the financial people knew what they were doing, and we really should be far more critical of their actions at that time than we were.

Steve Weisman: How many times have you seen this happen in your career? Was that the most dramatic example, or were there others?

John Williamson: This was certainly the most dramatic example, but I think there were other times when I thought the conventional wisdom was quite wrong. I think devaluation was the first of things in the UK, and again, when the pound was floating and it floated up to quite absurd levels in Britain in 1980, thereabouts. There were not many people willing to stand up and say that the pound was greatly overvalued at the time by the market.

Steve Weisman: Let's go back to conventional wisdom. One of the things you point out is that into the 1970s, there was a kind of consensus of classical economists, a post-Keynesian consensus that sort of broke apart in the '70s and '80s into schools of thought. You quote Paul Krugman as calling “the freshwater economists,” the libertarian’s monetarist versus the Keynesian “the saltwater economists.” You say, “I am a saltwater economist.” Tell me a little bit about that period.

John Williamson: I think that there was a long period when the conventional wisdom became monetarism. I think that was another example of economists getting things terribly wrong. It was then that Paul Krugman said you could divide economists into saltwater economists versus freshwater economists. I'm not sure that the saltwater views were quite as dominant as the saltwater on the coasts of the U.S. as he made out. But even so, there was certainly, in the middle, there was a strong view to the contrary which I thought was basically wrong, because demand does matter. There are big departures from internal balance and some of these have been very serious. For a long time, we got by without having a big crisis in the Western world, but even so, one shouldn't forget the possibility in the way that in fact we did.

Steve Weisman: I’m going to stop here for Part I of our interview. In Part II, I want to talk to you about the Washington consensus.