



The Washington Consensus

Stanley Fischer, Governor of the Bank of Israel

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One always says it's a great pleasure to be where everyone is at the time, but it is a great pleasure to be here. I had feared that I would find myself somewhere else. I remember from being in Washington that they let international flights land and take off whenever they can, whereas with the domestic flights they mess them around a great deal. So, I figured that if I got on a plane which is scheduled to land here it would probably land, but it was the next step that bothered me 'cause I knew there wouldn't be a train, and I was sure that whatever plane was scheduled to leave Kennedy at 9:00 this morning wasn't going to leave it at 9:00. So, we made it and I'm very happy to be here.

And I'm also very happy ... I, by the way, am on Denise's side on this photograph. Of course, everybody thinks they're more beautiful than they are, John, but this guy looks pretty beautiful to me. The other reason I'm glad that I made it, yesterday just in case I recorded this presentation, which I'm not going to subject you to now, I mean, the recording I'm not going to subject you to now. As I read it, I had a feeling this was slightly out-of-date version that my secretary had given me to read, and now that I've got the book, I realized that what Randy produced based on what I had written is way, way better than what I had said yesterday. So, I'm very happy to be giving you the new updated version of this paper, and I think, Randy, next time, Randy, you should send the corrected version to the author so he has some idea what you wrote about.

Anyway, one of the reasons I'm very happy to be here, and one of the reasons I have this great respect for John is I probably will win this \$500 reward for knowing John the longest. I took a course from him in 1967 at MIT when I was a graduate student. There were two international economics classes. One was a little less organized than the other. One had a professor who actually wrote down what was on the axes and labeled the curves and when you ask questions about what they meant could explain that to you, and the other was Charlie Kindleberger.

It was a terrific combination, actually. So I learned a lot from John in international economics in 1967, and I've learned a lot from him since as I think we all have. Everyone who's had to think about the topics everyone in this room thinks about is indebted to John whether that's ... because they've been thinking about economic development or open economies and exchange rates in particular or sometimes what the “Nineteenth Street twins” get up to is indebted to John, which is to say that everyone has ever had to deal with the practical aspects of growth and development—and especially exchange rate issues—owes John a serious debt of gratitude, mostly for the content of what he has written but also for the calm, clear and nonhistrionic style in which he writes.

Now, the version of his CV that I have lists 176 principal publications during the 50 years from 1962 through to 2011. Sixty-two percent of them are on exchange rates and closely related subjects, while only

10% are on the Washington Consensus. And even if you are just for the shorter period during which John has written on the Washington Consensus it seems that his focus has been more on the exchange rate, and he certainly had very, very useful things starting with the crawling pegs and all the many variations—there’s a whole alphabet of Williamson exchange rate arrangements that is recommended. But it is true that John’s best known work is on the Washington Consensus and that’s what I’m going to focus on.

Incidentally there may be 10,000 references to the Washington Consensus in the scientific literature. Google lists five million when you look at Washington Consensus, and that’s pretty good. I looked at a few others, I didn’t keep the data but there’s not a lot of economists to get anywhere close to that, particularly not for one concept.

Now, the Washington Consensus was originally focused explicitly on Latin America. It was presented in 1989 and published in 1990. It was a list of 10 points, and the 10 points were not presented as being a recipe for a list of things you needed to do if you wanted to develop, but a list of the 10 things on which there was broad agreement in Washington as being, I guess, essential for development. And you all have the book. The list of 10, the original list is on Page 13.

There are things which seem more or less unexceptional although there are some surprising ones given what people think John was writing about. In particular the last three—privatization, deregulation, and property rights are not what I think you would expect given the view that John is sort of in favor of restrictions and capital controls and controls here there and everywhere. It was not like that, and I don’t think it was interpreted that way by people at the time. I was a discussant, I was then chief economist of the World Bank and I was a discussant of the paper, which started ... my comments started: “As usual, John Williamson has given us a good sensible paper.” Which means that I basically agreed with what he had written, and like many, I noted that the consensus was not only in Washington it was, however, not universal.

I thought John had missed the environment as an issue on which there was quite a lot of agreement and military spending as well, and I thought that the emphasis on poverty reduction—which was certainly coming out of the World Bank at that time—was something on which there was a lot of agreement and possibly could have been mentioned. There was a discussion of liberalizing interest rates and financial sector supervision, and liberalization of foreign direct investment, and I said that Washington saw the financial liberalization as extending beyond real interest rates to the notion that the banking system and the financial sector in many developing countries needs fundamental restructuring. I also expressed doubt that Washington regarded the freeing up of capital flows as less urgent than the freeing up of goods flows, adding, “I fear rather that much of Washington does believe strongly that financial capital flow should not be constrained.”

Now, if I felt like arguing, I could then pick an argument with John over what he said that I said about capital flows, but this is not the occasion for picking arguments about things in which I fundamentally agree and if you don’t believe that just watch what we’ve been doing lately. In Israel in dealing with short-term capital inflows, which are driven more by ... well, I’ll say currency wars. I don’t think they’re currency wars, but in Brazilian terms, what’s going on are described as currency wars. I think it’s the natural efforts of countries to make their economies grow like the United States; and I’m glad they’re doing that ‘cause I’d much rather United States grew. We had to figure out what to do about these capital flows, and that we had an easy time dealing with capital flows while the United States didn’t grow.

John has written about his creation of the Washington Consensus and his reflections on it, and one of his concerns has been about the name, and I have to quote because it’s a Williamsonian comment: “While it is jolly to become famous for coining a term that reverberates around the world, I have long been doubtful about whether my phrase served to advance the cause of rational policy making,” and his preference in 2000

was for “universal convergence,” “one-world consensus.” Well, if you didn’t want to have a consensus you should call it universal convergence ‘cause then you could have a really terrific argument with everyone. It wasn’t universal and it wasn’t a convergence as they said of the Holy Roman Empire in another context. My guess is it doesn’t ... this is a bit like the old saw: “It doesn’t matter what they say about you as long as they spell your name right.” He named it the Washington Consensus, everybody knows it belongs to him, and they spell it right.

But his main concern has to do not with the name but with its having been called neoliberalism, and I don’t think that’s appropriate. I think John is ... I’m sure that relates to the fact that he does have elements which are not part of the left-wing agenda, namely the privatization, the deregulation and the property rights; but it’s a far more settled list with its comments than that implies. I do want to pick up on a theme which I hope John will talk about at some point. John wrote about the Washington Consensus in 1990. In 1991, the World Bank produced a world development report subtitled “The Challenge of Development,” and it was an attempt to develop a full strategy for development, and I had assumed that there was a close link between them.

So, I had Vinod Thomas who led the team; Larry Summers was basically responsible, was the chief economist when the report was published although I was there when it started; and I thought the two were closely linked. And I called Vinod and we talked about it, and he wrote to me afterwards: “WDR 91 reported on a sea change in thinking on development and policy advice linked in part to the articulation of the Washington Consensus.” Which is what I’d thought. And then two days later he wrote me another email saying that to his surprise, the 1990 Williamson paper was not included in the selected bibliography although John was listed as an advisor on the WDR’s first chapters. So, they’re not ... the links were not obviously as close as we both thought they were.

When you go more into what’s in the WDR 91, it had four main topics: investing in people, number one; number two, the business climate; three, the integration of countries to the global economy in terms of both trade and capital flows; and four, the need for a stable macroeconomic foundation for sustained growth. And the introduction ... the summary added: “Above all, the future of developing countries is in their own hands,” and finally, “domestic policies and institutions hold the key to successful development.” Well, that was what was said in 1991, it’s a wider list, but I think that’s ... now that I thought about it, it explains the difference between what John was writing about which was what was agreed, and this is presenting a more full set of policies that would be seen as those for development.

I want to add one more comment on the Washington Consensus of 1990 which is that many of the critics who wrote during the decade following publication of the paper noted that the consensus did not seem to work, that the Latin American growth record in the period from 1980 to 2000 was poor and thus reflected negatively on the Washington Consensus. Chile was clearly the most successful of the Latin American countries at that period, but John took its use of capital controls as meaning it didn’t abide by the consensus. I think it abided by almost everything except that and it was to me much more part of the ... more like a Washington Consensus country but it wasn’t quite that.

In any case, John objected to the characterization of Argentina as having been a Washington Consensus country on the grounds that it didn’t keep its budget in shape and that it had not done anything to prevent its fixed exchange rate from becoming overvalued, and so that one which was another country that was characterized as being a Washington Consensus country was not in his mind or in mine part of the consensus although at the beginning it may have been. Any case, a few years later John and Pedro-Pablo Kuczynski called another conference on Latin American growth that was in 2003, and then they produced their book, *After the Washington Consensus: Restarting Growth and Reform in Latin America*, and let me

call this WC2 (Washington Consensus II). It presents a set of additions to the original Washington Consensus under four headings: crisis-proofing; completing first generation reforms (which hadn't been done in many cases); second generation reforms.

Here John emphasized primarily the importance of institutional reforms saying that second generation reforms have sometimes been pictured as politically boring, esoteric. In fact, they're liable to involve political confrontation with some of society's most potent and heavily entrenched interest groups, such as the judiciary and public school teachers. I think when talking about public school teachers he must have thought of Mexico among others. And he also argued that the government has an important role in creating a business climate which is business-friendly, and he gives a long discussion of what he means by that.

So, it's clear that the material on second generation reforms is central to the development between WC1 and WC2 even though in John's article there wasn't enough room to develop it very much. And finally he focused fourth part, income distribution in the social sector. So by this point, we really did have something which was much closer to a development strategy than the original Washington Consensus had been. Now, in the article, I relate to the critiques or discussions of the Washington Consensus by Joe Stiglitz—which John also discussed—by Joe Stiglitz in 1998, and by Danny Rodrik in 2002 and 2005.

I also report on a more recent, much more recent work by Nancy Birdsall and co-authors and I won't go into all that except to take up the Danny Rodrik issues. And Danny refers to the Washington Consensus II as the augmented Washington Consensus, and table 22 which is on page something, Page 17, report is taken from Rodrik who says the title of the paper was "The Washington Consensus is dead; long live the new Washington Consensus!" He didn't come to say long live the new Washington Consensus, he said, "The augmented Washington Consensus is bound to disappoint. It is an impossibly broad, undifferentiated agenda of institutional reform. It does not correspond to the empirical reality of how development really takes place. It describes what advanced economies look like rather than proscribing a practical, feasible path of getting there," and then he goes on to state, "The challenge for critics of the Washington Consensus is this: they need to provide an alternative set of policy guidelines for promoting development without falling into the trap of having to promote yet another impractical blueprint that is supposed to be right for all countries." And then he goes onto present his view of the reformed, refurbished WC2, which he says, "Focuses on experimentation, both in the institutional and productive sphere as an important driver of economic development. The key is to realize that neither technology nor good institutions can be acquired without significant domestic adaptations," and that I think is correct, "these adaptations in turn require a proactive role for the state and civil society." Well I'll come back to that in a few minutes. Let me now just conclude with a fairly long list of comments.

It's striking that the Washington Consensus came out of Latin American experience with relatively little reference to development and growth problems that reflecting much of the rest of the world at the same time any stage of that, and the Indian subcontinent and Africa and the Middle East and the countries of the former Soviet Bloc. One would have guessed that Washington in the sense that John used the word 1990 had interest in the entire world, and one of the questions that I keep asking to myself is why was Latin America so central to development at that time. Was it that these were middle income countries, was it that the people who ran them were people we knew, was it the geographical accident of their being close to the US, and did it matter that it was based on Latin American experience rather than that of East Asia?

It's also noticeable that the developing world—and not least Latin America—has done much better so far in the 21st century than it did at the end of the 20th century, and the question is, what is the success of most of Latin America as well as much of the rest of the non-West in dealing with the Great Recession tell us about the Washington Consensus. I believe that it tells us that many of the lessons learned in the 1990s,

some of them in the context of IMF programs, many of them part of the Washington Consensus served these countries very well in the Great Recession, which possibly is a result of its taking much longer for reforms of the ... for structural reforms to begin to have an impact and we generally assumed in the 1990s.

The development of literature has not been comfortable with the relationship between political structure and economic performance. During the 1980s it was often asserted that Chile's success proved that authoritarian governments did better at economic reform. I could never figure this out. At the time, there were 19 dictatorships in Latin America, one of them succeeded. The lesson from that is you need a dictatorship to succeed, and it didn't seem to me to make much sense then. The same question is sometimes raised in comparing India and China. I think it's clear that an effective state apparatus is needed, but it's less clear that what makes a state effective with regard to development policy.

I was struck in reading the Washington Consensus literature both the original and the comments on it, by the prevalence of lists of policies and institutions that needed to be undertaken or dealt with. One has a feeling that something slightly sterile about these lists, and it took me a while to figure out what the problem is. Essentially, authors are writing to promote development and to either directly or indirectly help those who have a responsibility for implementing policies. They're providing recipes for economic development. But from my limited experience with recipes, they start with a list of ingredients, and that's first couple of lines, and then there's a whole long part on how you actually make the thing. And you sort of start with this and then you heat that, and then on the side you're doing this and then you put them altogether and out comes a cake. That's the part that's very hard for us academics and former academics people who sit in Washington and write to describe, and it's very hard to know how you gather these lessons of experience. A lot of it is just hands-on. There are all sorts of things that you learn, some of it are probably wrong.

I've got a whole list of things that I believe now about monetary policy, and sometimes I wake up in the morning and say, "Well, do you really know that?" By the way, I only think within the first five minutes of the day, after that it's all over, so ... because other things take your mind away from that.

Now, Danny Rodrik says experimentation is necessary. Well, it may be a good idea and it may be necessary, but it can be a disaster. Danny quotes with approval, China's experimental approach to development starting in 1978. But that China's previous experiment was the Great Leap Forward which cost many millions of lives, and that was certainly not a good idea, so I'm a little less certain about the values of experimentation without constraining in some way what you're allowed to experiment with.

I've been struck as a central banker by how extremely useful it is to have some knowledge of the history of central banks and how they—notably the Bank of England—had dealt with problems in the past. This goes back to how you make the cake. And I suspect that the study of development would benefit greatly if students were to learn more about the history of decision-making and policy execution in case studies of key episodes in economic development. The Hirschman book was a little bit like that but it had a different theme of looking at why things had succeeded but it usually said it had very little to do with what was originally intended, and it had more to do with adaptations and incidental ... or accidental features of projects.

What will happen to the Washington Consensus? I think it was extremely successful in providing a basis for debate on development policies in the period from 1990 to nearly the present. But I doubt there'll be a Washington Consensus III followed by a Washington Consensus IV, and so forth, because the development literature has moved on and there's far less controversy about what John said in 1990 or 2003 than there was then.

John also looked at the question of the Beijing Consensus and comes out strongly against it as is

the current Chinese leadership, and I think he's right on that, and that brings us back to John. He has a deceptively simple approach to economics. He believes in economics and he believes in applying it. And as his replies to the critics of the Washington Consensus show, he stands his ground when he's challenged, for he has a firm and well based belief in the benefits of economics and of a market economy. He does not try to impress by using fancy technique; rather he tries to be useful. And I wasn't sure whether it's a compliment but I always thought it was, so I hope you do, John.

In some ways, he must be the prototype that Kanes had in mind in writing about economics and economists in 1930: "It should be a matter for specialists—like dentistry. If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!" Well, it is splendid. He has a splendid example and a splendid economist in person. And, of course, we should also aspire as modern dentists do, to be more efficient and to cause as little pain as possible as we go about our daily tasks.

John believes in serious discussion and civilized dialogue as ways to advance understanding—and this is no small thing in a profession as important as ours.

Finally, looking back at John's description in 2004 of the Washington Consensus, its most striking characteristic—and one that he emphasized—is that it incorporates a transition from a belief that there's a specialized economics for developing countries and another set of policies that work only or mostly in developed countries, to an understanding that marks, and here I quote, "The end of the intellectual apartheid that used to divide the globe into the first, second, and third worlds, each with its own economic laws ...". And he adds: "This is something to be celebrated rather than mourned."

We're very happy to be part of that celebration.

