Grzegorz W. Kolodko, TIGER: The world has changed tremendously over the last 16 years. That is basically due to the ongoing globalization, the historical process of liberalization and the simultaneous integration of markets for goods, capital and (with a certain delay and to a limited extent) labor, as well as technologies and know-how, into one integrated world market. It is believed that at least to a certain degree this great change is due to the influence of the so-called Washington Consensus. Yet there has never been a true consensus for the required set of structural reforms and development policy – and for sure not in Washington D.C. There had been a concept of policy proposed and, by and large agreed, on how to tackle the issue of the structural crisis of Latin American economies. This proposal was presented by Professor John Williamson and the name of “Washington Consensus” was coined by him. Had he had the foresight at that time – that is in 1989 – and had registered the intellectual property right for the notion of “Washington Consensus”, he would be by now not only famous but also a rich man. However, he has certainly become a famous man because indeed the concept of Washington Consensus has made an incredible career during last decade and a half.

And it is still very often referred to; for good or bad reasons. As it happens, there has been a great deal of misunderstandings and misperceptions of what originally the author had in mind while presenting his train of though, first in 1989 and later, in several other papers. Nonetheless, it is a fact that later the policies based on the early Washington Consensus – or its misinterpretation, as for instance it was the case in many post-socialist economies in transition to a market – were widely executed in different parts of the world, and not only in Latin America (for which this policy advice had been developed in the first place). The attempts to use the Washington Consensus were indeed very strong in Washington, DC, especially among the experts of the International Monetary Fund. The Bretton Woods organizations – and indeed the whole of D.C. – were taken by big surprise when the post-socialist transition started in Poland in 1989 and was followed shortly by all East Central Europe and, since 1991, by the former Soviet Union. “Washington” was not ready for this emerging challenge. What was ready at that time,

was the Washington Consensus and, hence, it was taken advantage of for the purpose for which it was not designed initially. Unfortunately, the economies of post-socialist countries have paid for this misfortune dearly, since the early Washington Consensus was not suitable for the post-socialist challenge due to the specific feature of these countries. Of crucial importance here was the lack of proper market institutions which should only be gradually built during the transition. The Washington Consensus was not giving enough attention to the institutional aspect of development policy. It was also not concerned enough with the social consequences of vast liberalization and rapid privatization in the post-socialist economies. Therefore, the policies based on an oversimplified interpretation of the early Washington Consensus, as in the case of Poland’s so-called shock therapy were quite unsuccessful, and in the first half of the 1990s in Russia, were rather a failure. In Poland only later – during the years of the implementation of the program known as “Strategy for Poland” in 1994-7 – the situation had improved. But it was very much due to policies which were not based on the Washington Consensus. Much more attention had been given to the institutional building and equitable growth. The government was also much more involved in policy making, exercising proper industrial and trade policies, which were so much irrationally hated and ignored by naïve neo-liberalism. Unfortunately, later – in 1997-2002 – the economic policy pendulum had shifted again in the wrong direction which brought the rate of GDP per capita growth from as high as 7.5% in the second quarter of 1997 to a meager 0.2% in the fourth quarter of 2001. Only later, after subsequent policy change in 2002, the economy started to gain momentum again, this time due to the program known as “Public Finance Reform” (see the chart).


From Shock without Therapy to Therapy without shocks...
Rate of GDP growth and rate of unemployment (1990-2005)

Source: Central Statistical Office, Warsaw.

What must be stressed, however, is the fact that economic underperformance, as it was the case in Poland in the early and then again in the late 1990s is not to be blamed on the Washington Consensus, but on the naïve and short-sighted misinterpretation of this concept by Polish neo-liberals who were at the time of shock without therapy and overcooling (1998-2001) in charge of economic policy.

Yet, as we know, the Washington Consensus was developed initially to serve another purpose and not the case of post-socialist transformation. The Consensus itself has evolved over the last 15 or so years. And now again we have an opportunity to learn from the author of this policy design – John Williamson – what has worked and why and what has not worked and why. He is presenting his views in a subsequent – already the 17th – Distinguished Lecture (www.tiger.edu.pl/english/publikacje/dist.htm), hosted by the Leon Koźmiński Academy of Entrepreneurship and Management, WSPiZ (www.kozminski.edu.pl) and Transformation, Integration and Globalization Economic Research TIGER (www.tiger.edu.pl). The title of the lecture is “Differing Interpretations of the Washington Consensus”.

Professor John Williamson, who he still holds his British citizenship, has been involved since the beginning (1981), with the Institute for International Economics located in Washington D.C., recently as a Senior Fellow. He is a graduate of the London School of Economics and Princeton University. In 1996-9 he was on leave from the Institute to serve as Chief Economist for the South Asia Region of the World Bank. In 2001 he served as Project Director for the UN High-Level Panel on Financing for Development (the Zedillo Panel). His publications have mainly been concerned with international monetary issues. Most recent major publications (all by Institute for International Economics) are “Delivering on Debt Relief: From IMF Gold to a New Aid Architecture” (2002, with Nancy Birdsall), “After the Washington Consensus: Restarting Growth and Reform in Latin America” (2003, jointly edited with Pedro Pablo Kuczynski), and “Dollar Adjustment: How Far? Against What?” (jointly edited with C. Fred Bergsten).
The contribution of John Williamson to development economics is significant and should be appreciated. It goes without saying that we have learned a lot from his research. But true learning calls not only for reading the scholarly papers and academic books, but also – and sometimes first of all – adopting the theories developed elsewhere to the local or regional context. That is true as much for East Central Europe as for Latin America, as much for South Asia as for Sub-Saharan Africa. Learning implies also a permanent discussion. Today we have another chance to discuss the issues of our joint concern and the case of the Washington Consensus with Professor Williamson himself.

John Williamson: Thank you very much. The Washington Consensus started life as a list of ten policy prescriptions that were widely held in Washington to be desirable in most of the countries of Latin America as of 1989. The criticism that I expected was that I had made a list of “motherhood and apple pie” propositions that no reasonable person would object to. In fact, the first major criticism of which I became aware is that by calling this the “Washington” consensus I was implying that the credit for identifying the reforms needed to modernize the Latin economies belonged to Washington rather than the local reformers who had in some cases risked their careers to implement a reform agenda that had been developed in response to local needs. This was not, of course, my intention, as a perusal of my account of the pioneering “Big Bang” in Bolivia in 1985 will surely attest (Williamson 1990, ch. 9). Incidentally, I have argued that the Polish Big Bang was inspired by that reform program of 1985 that was home made high in the Andes (Williamson 1992), with Jeff Sachs as transmission mechanism rather than inventor.

However, the term “Washington Consensus” quickly escaped the control of its originator. Before I was aware of what had happened it had metamorphized into meaning a set of market-fundamentalist propositions of universal validity that a group of evil empire-builders in Washington were conspiring to impose on those parts of the world that were in no position to resist. I believe it is this alternative version that many critics love to hate. Meanwhile at least one alternative meaning became well established in usage, according to which the Washington consensus refers to the set of policies that are recommended to their clients by the Bretton Woods institutions.

What I propose to do today is to contrast these three meanings of the term. Since I am not a market fundamentalist, I do not propose to defend the many questionable propositions that I have read as implied by the Washington consensus in this form. My objection to the arguments of this school is purely semantic: I believe that something that is called a Washington consensus ought to command (or have commanded) a consensus among some significant set of actors in Washington, and I do not believe that this has ever been true of these beliefs except in the wilder imagination of Joseph Stiglitz. So far as the Bretton Woods institutions are concerned, I believe that there are two important ways in which the advice they gave—or at least that the IMF gave—went off the rails in the 1990s. So far as my own version of the concept is concerned, I will argue that the propositions it contained were far from trite in the context in which they were advanced, and that they describe a broadly sensible if seriously incomplete reform agenda.

Let me emphasize that I do not believe it makes sense to augment the Washington Consensus by seeking to create a comprehensive list of all the policy reforms that countries should seek to implement, if only because a good reform program needs to take account of the specificities of the national situation and will therefore not be the same everywhere. On the other hand, I do believe it is worthwhile to seek to identify, and to debate, the broad thrust of policies that countries are normally well advised to pursue, and to try to ensure that the international community encourages countries to adopt policies consistent with that thrust.
1. The Market-Fundamentalist Version

This version consists of critics’ beliefs about the set of policies that the international financial institutions (IFIs), or more specifically the IMF, are seeking to impose on their clients. These beliefs vary somewhat by critic, but the most eminent critic (the only one to have won a Nobel Prize) is surely Joe Stiglitz, so it seems reasonable to take him as a spokesman for this view. In his book *Globalization and its Discontents* (Stiglitz 2002), he tells us (p. 53) that the three pillars of the Washington consensus “were” fiscal austerity, privatization, and market liberalization. These policies “were based on a simplistic model of the market economy, the competitive equilibrium model, in which Adam Smith’s invisible hand works, and works perfectly. Because in this model there is no need for government—that is, free unfettered, ‘liberal’ markets work perfectly—the Washington Consensus policies are sometimes referred to as ‘neo-liberal’, based on ‘market fundamentalism’, a resuscitation of the laissez-faire policies that were popular in some circles in the nineteenth century” (p. 74). Moreover, “most countries […] have followed the Washington Consensus advice that fees should be charged” for education (p. 76). And later “…Washington Consensus policies emphasized a minimalist role for government…” (p. 92).

None of the paragraphs from which the above four quotations are taken contains a citation supporting the opinion expressed. There are no references to speeches of the Managing Director of the Fund or his Deputy, to publications of members of the Fund staff, or, with one exception, to specific instances where the Fund followed policies along the lines described. The exception concerns the charge that the IMF urged countries to charge fees for education, where the action of President Museveni of Uganda in abolishing school fees is asserted to be contrary to the advice contained in the Washington Consensus. But even here there is no demonstration that any of the IFIs were opposing the abolition of school fees. In fact, it is true that the IFIs pushed cost recovery in primary education in the early 1980s. This was a terrible policy, but it was progressively abandoned in the years following the admirable UNICEF report *Adjustment with a Human Face* (Cornia, Jolly and Stewart 1987). By 1989, the World Bank (at least) was actively promoting additional public expenditure on primary education, to a point where I felt justified in including this as a part of my second heading of the original statement of the Washington Consensus. To my knowledge no one has ever suggested that its inclusion was a mistake. (What many of us have urged, as a way of improving income distribution, is the introduction of much more substantial cost recovery in tertiary education: see, for example, Kuczynski and Williamson 2003.)

If one reads Sebastian Mallaby’s detailed and illuminating account of the way in which primary school fees were abolished in Uganda (Mallaby 2004, ch. 8), one may note three interesting things that are somewhat at variance with Stiglitz’s account:

- The World Bank was unpopular with the Ugandan government prior to the abolition of school fees because it was pushing expenditure on education rather than on rural road building.
- President Museveni came to promise the abolition of primary school fees as a result of learning on the campaign trail that this was what people wanted, not because of his personal convictions.
- The substantial additional expenditure needed to fulfill this election pledge was financed by the World Bank.
My objection to these critics of the Washington consensus is not a desire to defend the policies they object to, most of which merit criticism, but to their aspersion that the policies they criticize ever commanded any sort of a consensus in Washington. It is surely possible to identify individuals in Washington who really believe that free markets work near perfectly, or that the role of the state should be minimized, or that developing countries should impose charges for primary education, but these are not, and have never been, consensus views. To debate this version of the Washington Consensus is to address a straw man. Serious intellectual discussion should be directed at more substantive targets.

2. The Policies Pursued by the Bretton Woods Institutions

Let us therefore examine another version of the Washington Consensus, which interprets it as the set of economic policies advocated for developing countries in general by the IFIs, primarily the IMF and World Bank. Dani Rodrik (2002) has provided a convenient summary of what he conceived this to consist of in the year 1999 (see Table 1). The original ten points were augmented with a further ten, with a heavy emphasis on institutional reforms and some recognition of the social dimension. This is also the flavor of the eligibility requirements for the Millennium Challenge Account, which is the principal attempt of the Bush administration to help low-income countries.

Insofar as I was a good reporter of the Washington scene, there was a close correspondence between my original version of the Washington Consensus and this concept in the early 1990s. However, I fear that I allowed wishful thinking to cloud my judgment of what commanded a consensus in one respect, which concerns exchange-rate policy: I doubt whether even at that time the overwhelming bulk of Washington opinion would have endorsed a competitive exchange rate (which implies an intermediate exchange rate regime dedicated to limiting misalignments), rather than one or other of the two poles (free floating and firm fixity, both of which are prone to generate misalignments). But views evolve, and naturally the policies advocated by the Bretton Woods institutions have changed somewhat over time. Some of these changes, such as the growing emphasis on the importance of building solid institutions and combating bribery, are ones that I would endorse (see Kuczynski and Williamson 2003). On the other hand, there are two respects in which the Bretton Woods institutions—more particularly the IMF—came during the 1990s to espouse views that I thought were misguided. One again concerns exchange-rate policy, where the IMF’s advocacy of the bipolar view, that countries should either fix or float but not adopt an intermediate regime (see the “augmented” version of the Washington Consensus, particularly item 17), grew stronger. In the mid-1990s a further divergence emerged, as the IMF and the US Treasury often pressed middle-income countries to dismember capital controls rapidly. I believed at the time that this was playing with fire, and after the Asian crisis this view is no longer sacrilegious, at least within the IFIs, whose position can reasonably be summarized à la Rodrik as favoring “prudent” opening of the capital account.

Let me elaborate for a few moments on these two criticisms of the policies that were pursued by the IMF in the 1990s. I regard myself as very much a disciple of Bela Balassa in believing that export growth is key to igniting a general growth process and that a competitive exchange rate is

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5 Items 5 and 17 of Rodrik’s list strike me as contradictory, rather than that the latter elaborates on the former.

6 However, to judge from its insistence that all bilateral free trade agreements between the United States and other countries, including Chile and Singapore, emasculate their ability to use capital controls in the future, the U.S. Treasury continues to believe in rapid capital account liberalization.
key to export growth, or at least to the growth of non-traditional exports. If one worries about having an exchange rate sufficiently competitive to induce a rapid growth in exports, then one will be driven to support some form or other of intermediate exchange-rate regime, since both fixed and floating rates imply governmental acquiescence in whatever real exchange rate happens to result from market forces. But in fact most of Washington, like most of the economics profession, seems content with one or other of the polar positions: indeed, only a couple of years ago it seemed to be commonly believed that supporting anything else was a mark of mental imbecility.

While I fear that my version of the Washington Consensus was bad reporting of the Washington scene, I still think it was thoroughly admirable as a prescription for development. I do not believe that the Washington institutions, or the economics profession, did a service to development by their infatuation with the bipolar solution. Let me add that I do not equate export-led growth with running a big trade (or current account) surplus as is assumed by Dooley, Folkerts-Landau, and Garber (2003). When the current account surplus is used to accumulate reserves larger than are likely to be needed to head off a crisis, it leads to a waste of resources that will decrease rather than increase intertemporal welfare. To suggest that China would not benefit by ending this waste of resources is to claim that it could not stimulate demand by domestic policy adjustments. If I believed that, I would hesitate to call the Chinese model a success story.

I never believed that the policy of rapid capital account liberalization was wise, but I felt increasingly isolated in holding this view in Washington until the late 1990s. In fact Stanley Fischer, in his comment on my original paper while serving as Chief Economist of the World Bank, queried my judgment that at that time there was little consensus in favor such liberalization. He asserted that there was in fact strong sentiment in Washington in favor of liberalizing the capital account. Whether or not he was correct on that in 1989, it was certainly widely perceived to be true by the mid-1990s, with Fischer himself—who had expressed reservations about the wisdom of such liberalization in 1989—being perceived as strongly in favor of it in the position he then held of First Deputy Managing Director of the IMF. Along with the bipolar exchange rate regime, this seems to me to be one of the key respects in which the second concept of the Washington Consensus—as the conventional wisdom of the Bretton Woods institutions—came to differ from my original list. I believe that in both cases my formulation was a much better prescription for development than the advice proffered by the Bretton Woods institutions, or at least by the IMF. I hold premature capital account liberalization to have been primarily responsible for the catastrophe of the Asian crisis that overtook the tigers in 1997 and interrupted the East Asian miracle (see Williamson 2004).

3. The Original Version

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7 I have attempted to formalize these ideas in a recent paper (Williamson 2003). The basic idea is to ask what exchange rate will maximize the growth rate, given that a more competitive rate will promote investment but will also curtail the resources available for investment (since the current account deficit will be lower). A different (also important) question is whether the government commands policy weapons that would allow it to achieve the growth-maximizing exchange rate.

8 See Fischer (1997) or his contribution to Fischer et al. (1998) for expositions of his position at the time. These statements suggest considerable enthusiasm for the goal, though qualified by caution about the potential danger posed by increased vulnerability of the economy to swings in market sentiment.
My original version listed ten policies about which I thought there was general agreement in Washington on the need for most countries in Latin America to reform (as of 1989):

1. Budget deficits should be small enough to be financed without recourse to the inflation tax.
2. Public expenditure should be redirected from politically sensitive areas that receive more resources than their economic return can justify toward neglected fields with high economic returns and the potential to improve income distribution, such as primary health and education, and infrastructure.
3. Tax reform so as to broaden the tax base and cut marginal tax rates.
4. Financial liberalization, involving an ultimate objective of market-determined interest rates.
5. The exchange rate should be unified and at a level sufficiently competitive to induce a rapid growth in non-traditional exports.
6. Quantitative trade restrictions should be rapidly replaced by tariffs, and these should be progressively reduced until a uniform low rate of 10 to 20 percent is achieved.
7. Barriers impeding the entry of foreign direct investment should be abolished.
8. State-owned enterprises should be privatized.
9. Regulations that impede the entry of new firms or restrict competition should be abolished.
10. The legal system should provide secure property rights without excessive costs, and make these available to the informal sector.

All these reforms seem to me to be broadly desirable, though I would readily concede that some of them could have been more felicitously expressed. For example, I certainly believe that countries benefit by maintaining disciplined (often called “austere”) fiscal policies, but I recognize that the criterion I originally suggested—that the deficit be small enough to be financed without recourse to the inflation tax—is too narrow. It may have been appropriate to the Latin America of the 1980s, in which most governments did not have the option of borrowing their way to catastrophe, but the criterion needs to be refined to rule out adverse debt dynamics in the world of today. It also failed to acknowledge the importance of designing fiscal policy to be counter-cyclical, at least to the extent of allowing the automatic fiscal stabilizers to operate. However, I propose today to restrict significant comments to the three items on this list that seem to have proved the most controversial: items 4 (financial liberalization), 8 (privatization), and 9 (deregulation).

### 3.1 Financial Liberalization

My initial formulation of this was exclusively in terms of interest rate policy, whereas there are other important aspects of financial liberalization (Williamson and Mahar 1998), of which the most important is devolution of the right to allocate credit from the state to individual financial institutions (notably banks). In subsequent presentations I corrected this, but that still left two important inadequacies in my treatment:

- I failed to add an important caveat: a system where banks allocate credit demands much stronger prudential supervision than is needed where banks simply provide credit to those whom the government chooses. Because of asymmetrical information, uncertainty, the temptations posed by the opportunities of insider lending, and the pressure for governments to bail out a bank that fails, a banker needs to held accountable to an informed supervisor who can judge whether he is choosing a judicious combination of risk and return. I omitted acknowledgment of this point despite the fact that a principal lesson drawn from the collapse of the pioneering financial liberalizations in the Southern
Cone of South America at the end of the 1970s was the need to accompany liberalization by strong supervision.

- I did not specify that I had in mind solely domestic financial liberalization, and not the abolition of all capital controls. (I thought this was evident from the fact that item 7 on my list was restricted to urging the liberalization of inward FDI, but apparently some people read the call for financial liberalization as including capital account liberalization. As already stressed, I favor a European pace for such liberalization, where it took 30 years odd, rather than the forced march that many emerging economies adopted in the 1990s.)

So much for mea culpas. What remains is to explain why I favor domestic financial liberalization, accompanied by strong prudential supervision. The theoretical case for financial liberalization was first made by McKinnon (1973) and Shaw (1973), who argued that liberalization would lead to higher interest rates and therefore more savings, and a market incentive to weigh risk against return and therefore improved allocation of investment. Evidence has not supported the first of those arguments, for which there is actually a simple theoretical explanation: an income effect works in the opposite direction to the substitution effect on which the prediction is based, and apparently the two are of roughly equal strength. However, the evidence (reviewed in Williamson and Mahar 1998) strongly supports the contention that investment allocation is improved when it is made not by bureaucrats but by bankers aiming to maximize profits (provided they are effectively constrained to limit moral hazard by supervisors). That is quite enough to justify a policy of seeking a liberalized financial system.

Unfortunately the empirical evidence also indicates that there is a third systematic effect of financial liberalization, which is to increase the vulnerability of the system to crisis. Limiting this danger is one of the compelling arguments for treating strong prudential supervision as a key complement to liberalization. That is not to claim that better supervision is the only thing that is needed to control the risk of financial collapse, which also needs macroeconomic prudence and arguably a willingness to limit an economy’s exposure to the ebb and flow of international capital flows. But it does imply a need for caution in the process of liberalization.

3.2 Privatization

There are parts of the world where privatization is an intensely unpopular policy, but to economists there is a bit of a mystery as to why it appears to be so widely disliked. The majority of economic studies have concluded that privatization has been fairly regularly beneficial in some dimensions (such as increasing efficiency and extending access to services) while its impact has been very unsystematic in others (such as employment and income distribution, which have worsened in some cases but improved in others). Some of the studies have led to surprising conclusions. I think in particular of Galiani, Gertler, and Schargrodsky (2002), who compared the performance in terms of infant mortality (which is primarily caused by waterborne diseases) of Argentinean municipalities that had and had not privatized their water supply systems in the 1990s. Infant mortality proved to have fallen more, by a statistically significant margin, in those municipalities where privatization had occurred. One should not really be surprised by this when one reflects that privatization has typically been accompanied by an extension of coverage, that it is the poor who lacked coverage before, and that those who lack coverage pay through the nose for private supplies of water that are trucked in.

A quite different benefit of privatization is that it reduces the power of the state and thus contributes to a more pluralist society. This is not a big issue in most market economies, where only those who want a minimalist state worry about it, but I imagine that it was seen as an
important issue in many economies in transition when the transition began. On a recent visit to Nigeria I learned that it is also seen as an important issue there by a part of civil society that would generally be considered left-wing.

My own guess of the explanation of the paradox that privatization is unpopular even though the evidence of its economic effects is predominantly positive is that it reflects dislike of the process through which many privatizations have occurred. In many cases the process of privatization involved an arbitrary transfer of wealth, often to “insiders” or “cronies” at the expense of the general public. Even if the public did not in fact lose much, or even gained, in net terms, many people are far more concerned with distributional issues than economists, with their willingness to dismiss anything that is “only” a transfer as therefore unimportant, concede.

The conclusion I draw from these reflections is that privatization remains a desirable objective, but that more attention needs to be paid to the way in which it is achieved than has often been the case in the past. There needs to be more attention to ensuring that privatization is, and is seen to be, squeaky clean. If that restrains the pace at which it is carried out, so be it. The objective should not be “privatize as fast as you can” (as Kolodko (1998) once claimed the Washington Consensus demanded), but to privatize in a way that will increase efficiency without concentrating wealth.

3.4 Deregulation

This term may have suggested that I was urging the abolition of regulations designed to protect health, or consumer safety, or transparency, or financial probity, or the prices charged by a monopolist, or the environment, or any of the myriad of other causes that the state has found it necessary to safeguard in a modern economy. This was not my intention, as I have emphasized on several occasions subsequently. Rather, the regulation that I had in mind is that which limits entry and exit, and what activities people or firms can engage in, and therefore limits competition. So in a US context one is talking about the deregulation of airlines or trucking, and in a German context one would be speaking of relaxing limits on shop opening hours or labor market regulations, and in an Indian context one thinks of the 1980s’ deregulation of the trucking industry or the continuing need to abolish small-scale industry reservation.

Kuczynski and Williamson (2003) argued that the most urgent need of this type in Latin America today is the need to relax restrictions in the labor market. About half the labor force in many Latin American countries is in the informal sector, where it receives absolutely no social protection, while the other half benefits by a set of measures that are appropriate (if at all) only in a high-income economy. We argued that it would be much preferable if restrictions on firing (which discourage hiring) were eased, and legally-mandated social benefits were restricted to the core measures (like health insurance, some source of income in the event of unemployment, and a pension in old age). But while this may be preferable, in the well-known sense that the efficiency gains would be large enough to allow the winners to compensate the losers and leave a net gain to

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9 Russia was the outstanding case where privatization provided a mechanism for transferring assets for a fraction of their true value to a privileged group of insiders. Many other economies in transition witnessed something similar, even where voucher schemes were intended to engineer a wide distribution of ownership of socialized enterprises. (Poland’s policy of rapid small privatization but a more measured pace of privatizing large enterprises appears to have served it relatively well and provided most of the benefits while avoiding the worst costs.) Many privatizations in Latin America and elsewhere in the developing world have, certainly in public perception, been marred by corruption. Even Margaret Thatcher provided windfall bonuses to those who first bought shares in privatized enterprises by selling privatized enterprises off for less than the market thought they were worth.
society, it is unlikely that compensation would in fact be paid, and therefore a large part of society would lose. To achieve these changes it would therefore be necessary either to devise a set of measures providing for compensation, and muster the political will to implement them, or else to fight a political battle to defeat the potential losers. My own preference is for the former course.  

4. The Significance of the Washington Consensus

I am still, therefore, prepared to defend even the more controversial parts of what I wrote in 1989. I have never contended that the Washington Consensus constituted a complete reform program, and will elaborate on what I believe to be missing shortly. But first I want to explain why I believe that the changes in policy celebrated in the Washington consensus were important, and why it is potentially dangerous to launch attacks on “the Washington Consensus” (without, at least, specifying carefully what one means by this term).

In the years following World War Two economic policy was based on very different approaches to those that are normal today. In some respects, such as the employment of Keynesian anti-cyclical policies, one can argue that it was more enlightened. Indeed, one might argue that the prevailing policy regime of the time—making light of inflation and focusing instead on output stabilization, giving a leading role to the state, and in developing countries also import-substituting industrialization—was quite apt for the circumstances of the time. But times change. The OECD countries were reasonably prompt in recognizing the challenge of inflation, and in perceiving that the restoration of the private sector and the almost-inevitable degeneration of the public sector in the absence of competitive pressures meant that it was no longer efficient to assign such a large role to the public sector. The East Asian countries also kept up with the times, by maintaining macroeconomic discipline, nurturing their private sectors, and replacing import substitution by an outward-oriented regime in the 1960s or 1970s. In my view these changes, not industrial policy, basically explain why East Asia had a miracle.

Other parts of the developing world hung on to the old policy paradigm long after it had ceased to be effective. The first scattered indications of change occurred in the late 1970s (Sri Lanka, the Southern Cone of South America, and, though starting from an extremely dirigiste base, China), and a few other countries (like Mexico and Bolivia, and in a moderate way India) began reforms in the mid-1980s. But it was only in the late 1980s that reform swelled to a flood. One country after another in Latin America responded to the debt crisis and the lost decade by seeking to restore macroeconomic discipline, liberalizing the trade regime and financial system, welcoming FDI, and cutting subsidies to state-owned enterprises that sold middle-class goods for less than the cost of production. South Asia made similar changes, albeit more cautiously, and with the emphasis on microeconomic liberalization rather than macroeconomic stabilization. Most dramatically of all, the formerly communist countries began the transition. In Africa, it is only now that there appears to be any widespread desire to jump on the bandwagon of reform. This is not to say that the IFIs did not try to push African countries in that direction, but one may doubt whether external pressure in the absence of indigenous political will is likely to accomplish much.

The Institute for International Economics has contributed to devising measures to compensate American workers adversely affected by trade liberalization (see Kletzer 2001, ch.7), which is an example of the sort of initiative needed.
The Washington Consensus was composed in order to give a framework to a conference whose purpose was to assess how far this policy reform had gone in Latin America. It therefore aimed to summarize the principal agreed elements of the thrust for policy reform at that time, at least as they applied to Latin America. (Had I been aiming to provide a comparable summary for some other part of the world, there would surely have been a lot of overlap. But there would also have been certain differences—for example, had I been endeavoring to produce something similar for the economies in transition, I hope I would have included building the institutional infrastructure of a market economy.) The reforms embodied in the Washington Consensus may seem a bit trite viewed from an OECD perspective, because we long since took these things for granted and have to some extent put most of them above the political fray, but until they are achieved they are matters of the highest moment (as I imagine a Polish audience will find easy to understand).

5. Whither Reform?

One of my problems in talking about the Washington Consensus has always been that when I drew it up I was fundamentally aiming to summarize the reforms that were widely agreed to be desirable. Since I actually shared the view that all the reforms on the list were desirable, it was easy to construe this as what I thought the reform agenda ought to consist of. That is not in fact the case, for there may be—and actually are—some additional reforms that I would wish to see pursued, but that I did not include in the Washington Consensus because I did not think they were consensual. The obvious case in point is reforms aiming to improve income distribution.

Several years ago the Institute for International Economics tasked a group of economists, primarily Latin Americans, with producing a reform agenda for the present decade (Kuczynski and Williamson 2003). In my summary of this volume, I classified the new reform agenda that emerged from the deliberations of the group into four big themes: crisis-proofing; continuing (and, where necessary, correcting) the “first-generation” liberalizing reforms that constituted the core of the Washington Consensus; complementing them with “second-generation” (institutional) reforms; and broadening the reform agenda to include a concern with income distribution.

Crisis proofing the economies of the region is at the head of the agenda because it is the repeated crises of recent years that have had such a devastating effect on growth (as they did in East Asia). In the first half of the 1990s, when the only big crisis was the “tequila crisis” (Mexico’s forced abandonment of its exchange-rate band at the end of 1994), performance was not brilliant but neither was it desperately bad: inflation was brought under control, per capita growth was an unspectacular but distinctly positive 2.4 percent per year, and poverty fell. It was in the subsequent 5 years, with a succession of crises that started in East Asia but then moved on via Russia to infect Latin American countries like Argentina, Brazil, Ecuador, Uruguay, and Venezuela, that per capita growth turned negative again and poverty increased once more.

It is therefore natural to suggest that an objective of the highest priority should be that of reducing the vulnerability of the countries of the region to crises. It is true that Latin America has been chronically crisis-prone practically since it achieved independence, but that does not mean that the ill is incurable. Some of the actions that are needed to curb volatility, like moving from an export profile dependent on a few primary commodities to a diversified industrial base, are inherently long-term. But the core ones could be implemented in the space of less than a business cycle:

• Achieve budget surpluses in times of prosperity so as to provide scope for stabilizing deficits to emerge by operation of the automatic stabilizers in bad times.
• Make sure that sub-national governments are subject to hard budget constraints, and define their entitlement to transfers from the central government as a proportion of national public expenditure rather than tax revenue, so that they cannot undermine an anti-cyclical policy run by the central government.

• Accumulate reserves and build a stabilization fund when exports (particularly those of cyclically unstable primary commodities) are strong.

• Adopt a sufficiently flexible exchange rate regime to allow external competitiveness to be improved through currency depreciation when there is a sudden stop to capital inflows or other balance of payments difficulties emerge, but do what is possible (e.g. by using measures like capital inflow taxes) to avoid this leading to overvaluation if capital inflows threaten to become excessive.

• Except in countries that have close relations with the United States in terms of both trade and financial flows, where full dollarization makes sense, aim to minimize use of the dollar both as an asset in terms of which residents hold savings and in terms of which loans are contracted. Unless and until this aspiration is achieved, make banks insure risks that they incur in lending in dollars to the non-tradable sector.

• Complement a flexible exchange rate with a monetary policy focused on targeting a low rate of inflation.

• Increase domestic saving so that investment can rise without undue dependence on capital imports. This will involve a further strengthening of structural fiscal positions, and it can also be promoted by completing the process of pension reform that has already been started in many countries.

One idea we endorsed is for some regional body to develop an analogy to the Maastricht criteria for fiscal discipline in the European Union. These should be more sophisticated than Maastricht’s nominal limits of a 3 percent of GDP cap on the non-cyclically adjusted budget deficit and a 60 percent cap on the public debt/GDP ratio, and should instead aim to build pressure for a consistent anti-cyclical policy. For example, the growth of government expenditure might be capped at the estimated trend rate of growth of the economy, while tax revenue could be required to grow at least in line with nominal GDP. A government that wished to enlarge government expenditure, or cut taxes, by more than this allowed would be expected to demonstrate to its peers in the regional monitoring organization that its plans did not prejudice the maintenance of fiscal discipline. Hopefully its peers would not tolerate any chicanery of “supply-side economics” that might be presented to them to rationalize fiscal lapses. Where there is a convincing need for higher public expenditure, this needs to be financed soundly, if necessary by raising taxes.

Of course, we do not argue that Latin America should be content with the growth that would result simply from crisis-proofing the regional economies. The region also needs a faster rate of growth than it achieved in the first half of the 1990s, before the crises started erupting. Although a lot was done in the last decade and a half to implement what are now referred to as “first-generation” reforms (the sort of reforms I included in the Washington Consensus), and the evidence says that these did indeed serve to accelerate rather than retard the growth rate, the process is still incomplete in several dimensions. Perhaps the most egregious omission has been to fail to make the labor market more flexible. The reason for this is not difficult to comprehend, insofar as those who think they are beneficiaries of the status quo—those who have unionized formal-sector jobs—constitute an interest group that is sufficiently powerful politically to deter potential reformers, and sufficiently underprivileged economically to evoke public sympathy.
Nevertheless, the rigidity in the labor market constitutes a major obstacle to an expansion of employment in the formal economy. This does not just impede faster growth, but it does so primarily at the cost of some of the poorest members of society, namely those who are denied the opportunity to move out of the informal economy and achieve even the most basic elements of the social wage (health insurance, a pension, safeguards against unemployment).

Is there therefore a dilemma in choosing between the interests of organized labor in maintaining the rigidities of the labor market and the interests of those in the informal sector? A crude program focused on nothing but rolling back the benefits that labor has won over the years, from severance payments to the social wage to restrictions on hours worked to prohibitions on what children (for example) are allowed to do, would indeed pose such a dilemma. But it is possible to envisage ways of restoring flexibility that would not prejudice the interests of organized labor (as has been achieved over the last 20 years in the Netherlands). For example, severance payments can be replaced by a system of individual accounts. The social wage can be modified to forms that give the individual worker a direct stake in the payments made on his or her behalf (for example, by adopting defined-contribution rather than defined-benefit pension schemes, which also benefits workers by allowing much greater portability of pensions). Existing workers can be grandfathered (if they so desire, and by no means all of them would) in arrangements allowing for more flexible working hours. Not all regulations, certainly not those limiting child labor, deserve to be scrapped. And improvements in labor market information, skill certification, and occupational training systems could improve the functioning of the labor market so as to raise productivity and reduce the waste that results from mismatches between demand and supply. It is in fact possible to design a program that would liberalize the labor market and that enlightened trade unionists would recognize as consistent with their interests.

But it would be wrong to give the impression that the only task at this juncture in history is to complete first-generation reforms. The major thrust of development economics in the 1990s was recognition of the crucial role of institutions in permitting an economy to function effectively. The importance of institutional reforms in complementing first-generation reforms in Latin America was first emphasized by Moisés Naím (1994), who dubbed these “second-generation reforms”. An important role for the state in nurturing institutions is perfectly consistent with mainstream economics, which posits a crucial role for the state in creating and maintaining the institutional infrastructure of a market economy, in providing public goods, in internalizing externalities, and, depending on political views, in correcting income distribution. (Note that none of these roles serve to rationalize a government responsibility for running steel mills or electricity generators or banks.)

Second-generation reforms have sometimes been pictured as politically boring esoterica like creating budget offices or Securities and Exchange Commissions. Our book argues that in fact they are 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. The judiciary in Latin America are notorious for ignoring economic considerations, for example by over-riding creditor rights to the point where creditors are reluctant to lend. Or, worse still, they are so corrupt that judges have to be paid to permit money to be recovered. Similarly, many teachers’ unions have been captured by small groups with political agendas unrelated to the teaching profession. The answer, it is argued, is not to initiate a campaign to “break the unions”, but rather

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11 Some may argue that this is a misnomer, inasmuch as decently functioning institutions may be a precondition for certain liberalizing reforms, which implies that the second generation ought to precede the first!
to seek to professionalize teaching so that teachers will want their unions to become positive partners for reform.

One institutional reform that we think would be a mistake is introduction of an industrial policy, meaning by this a program that requires some government agency to “pick winners” (to help companies that are judged likely to be able to contribute something special to the national economy). There is little reason to think that industrial policies were the key ingredient of success in East Asia (see Noland and Pack 2003); while it is true that several East Asian countries had some form or other of industrial policy at some stage of their development, it is also true that one of the most successful of those economies, namely Hong Kong, never did. It is difficult to explain the success of a group of countries by something that one of them conspicuously lacked: one needs to search for the common features of those countries, like their high saving rates, outward orientation, macroeconomic stability, work ethic, and strong educational systems. This is not to say that an industrial policy would necessarily be a disaster, because in a country with strong private firms one can expect these to ignore misguided government pressures (such as the attempt of the Japanese MITI to rationalize the Japanese car industry by telling Honda not to make cars). But government has more useful things to do than issue advice that can only be defended by arguing that firms are free to ignore it.

Specifically, while government should stay out of making business decisions, and leave those to the people who stand to gain if the decisions made are good ones and lose if they are not, it has an important role in creating a business-friendly environment. This is partly the good old-fashioned business of providing decent infrastructure, a stable and predictable macroeconomic, legal, and political environment, and a strong human resource base. But it also includes the modern task of building a national innovation system to promote the diffusion of technological information and fund pre-competitive research, as well as providing tax incentives for R&D and encouraging venture capital, and may extend to encouraging the growth of industrial clusters.

In addition to reforming the judiciary, teachers, and the civil service, and building up national innovation systems, second-generation reforms need to address two major economic areas. One involves modernizing the institutions of a market economy. Unlike the economies in transition, which had the challenging task of creating such an infrastructure from scratch, Latin America already had the essential features of a market economy in place when the present wave of reform started in the late 1980s. Nonetheless, there are deficiencies in terms of property rights (particularly the lack of property rights in the informal sector to which Hernando de Soto has repeatedly drawn attention) and, in many countries, bankruptcy laws.

The other major need for institutional reform is in the financial sector. What is needed here, in addition to the strengthening of prudential supervision, is a whole series of apparently minor changes like improving transparency, upgrading accountancy, strengthening the rights of minority creditors, facilitating the recovery of assets pledged as collateral, and developing credit registries. While such reforms may appear minor, in fact they are of fundamental importance—but quite difficult to implement.

The final major thrust of the book concerns income distribution, a topic of major importance in Latin America, which has the most unequal distributions in the world. The starting point is recognition that there are two ways through which poor people can become less poor. One is by an increase in the size of the economic pie from which everyone in society draws their income. The other is by redistribution of a given-sized pie, so that the rich get a smaller proportion and the poor get a bigger proportion. In most cases the most effective way to give the poor a bigger proportion is to equalize opportunities by paying more attention to the social agenda.
The evidence says pretty clearly that growth benefits the poor, even if nothing is consciously done to make it “pro-poor growth”. Benefits do trickle down. One influential analysis concluded that the poor typically benefit more or less in proportion to what they already have (Dollar and Kraay 2000), although others have concluded that the elasticity of low incomes with respect to aggregate growth is significantly less than one (Foster and Székely 2002). But even if the poor do benefit in as great a proportion as others, they will not gain an awful lot from economic growth if they have very little to start with, as is the case almost everywhere in Latin America. Since most people believe that improving the lot of the poor matters more than securing an equal income gain to the rich, there is an abstract case for supplementing the gains from growth by a measure of income redistribution. And since a country where the poor receive a very small proportion of income needs to reallocate a relatively small part of the income of the rich in order to make a big dent in poverty, that case applies in spades to Latin America.

Arthur Okun (1975) described the trade-off between the level of income and its equitable distribution as “the big trade-off”. If society were efficiently organized, then we would be on the efficiency/equity frontier, where any gain in equity would have to be paid for by a reduction in the level of income. If, for example, we tried to redistribute income from rich to poor through higher taxes and increased welfare benefits, then there would be a cost in terms of the disincentive effects of high marginal tax rates reducing effort and therefore income. In practice most societies are usually operating somewhere within the efficient frontier so that there are opportunities for win-win solutions, and obviously one wants to identify and exploit these wherever one can. But it is also true that there is no intellectual justification for arguing that only win-win solutions deserve to be considered. One always needs to be aware of the potential cost in terms of efficiency (or growth) of actions to improve income distribution, but in a highly unequal region like Latin America opportunities for making large distributive gains for modest efficiency costs deserve to be seized.

Progressive taxes are the classic instrument for redistributing income. One of the more questionable aspects of the reforms of the past decade in Latin America has been the form that tax reform has tended to take, with a shift in the burden of taxation from income taxes (which are typically at least mildly progressive) to consumption taxes (which are usually at least mildly regressive). While the tax reforms that have occurred have been useful in developing a broader tax base, it is time to consider reversing the process of shifting from direct to indirect taxation, including recently the growth of taxes on check payments. In particular, one needs an effort to increase direct tax collections. For incentive reasons one wants to avoid increasing the marginal tax rate on earned income, which suggests that attempts to collect more from direct taxes should be focused on the following three elements:

• The development of property taxation as a major revenue source (it is the most natural revenue source for the sub-national government units that are being spawned by the process of decentralization that has become so popular).

• The elimination of tax loopholes, which not only can increase revenue but can also simplify tax obligations and thus aid enforcement.

• Better tax collection, particularly of the income earned on flight capital parked abroad, which will require the signing of tax information-sharing arrangements with at least the principal havens for capital flight.

Any increase in tax revenue then needs to be devoted to spending on basic social services, including a social safety net as well as education and health, so that the net effect will be a significant impact in terms of reducing inequality, particularly by expanding opportunities for the
poor. But it may be a mistake to limit the benefits exclusively to the poor, because at least in some circumstances it is only a middle-class stake in public spending that gives the extra spending a chance of being politically sustainable. At the same time, it must always be remembered that spreading expenditures more broadly to include the non-poor inevitably reduces the anti-poverty impact of a given level of expenditure.

With the best will in the world, however, what is achievable through the tax system is limited, in part by the fact that one of the things that money is good at buying is advice on how to minimize a tax bill. Really significant improvements in distribution will come only by remedying the fundamental weakness that causes poverty, which is that too many people lack the assets that enable them to work their way out of poverty. The basic principle of a market economy is that people exchange like value for like value. Hence in order to earn a decent living the poor must have the opportunity to offer something that others want and will pay to buy; those who have nothing worthwhile to offer because they have no assets are unable to earn a decent living. The solution is not to abolish the market economy, which was tried in the communist countries for 70 years and proved a disastrous dead end, but to give the poor access to assets that will enable them to make and sell things that others will pay to buy. That means:

- Education. There is no hope unless the poor get more human capital than they have had in the past. Latin America has made some progress in improving education in the last decade, but it is still lagging on a world scale.
- Titling programs to provide property rights to the informal sector and allow Hernando de Soto’s “mystery of capital” to be unlocked (de Soto 2000).
- Land reform. The Brazilian program of recent years to help peasants buy land from latifundia landlords provides a model. Landlords do not feel their vital interests to be threatened and therefore they do not resort to extreme measures to thwart the program. Property rights are respected. The peasants get opportunities but not handouts, which seems to be what they want.
- Microcredit. Organizations to supply microcredit are spreading, but they still serve only about 2 million of Latin America’s 200 million poor. The biggest obstacle to an expanded program consists of the very high real interest rates that have been common in the region. These high interest rates mean either that microcredit programs have a substantial fiscal cost and create an incentive to divert funds to the less poor (if interest rates are subsidized), or (otherwise) that they do not convey much benefit to the borrowers. We expect our macro program to reduce market interest rates and thus facilitate the spread of microcredit.

Mechanisms like these are becoming increasingly realistic because of the strengthening of civil society, which is one of the most positive trends in the region. They will nonetheless take time to produce a social revolution, for the very basic reason that they rely on the creation of new assets, and it takes time to produce new assets. But, unlike populist programs, they do have the potential to produce a real social revolution if they are pursued steadfastly. And they could do so without jeopardizing the interests of the rich, thus holding out the hope that these traditionally fragmented societies might finally begin to develop real social cohesion.

6. Concluding Remarks

The term “Washington Consensus” has been used in very different ways, and the negative connotations of one of those usages are sufficiently strong as to have led one observer who was
sympathetic to the original concept to describe it as a damaged brand name (Naím 2002). Despite that, the revolution in thought on the right way to conduct economic policy that it was originally coined to describe is important. The problem with the Washington Consensus in that sense of the term is not that it contains anything much that is misguided, but that it described an incomplete reform agenda. I have tried to sketch what needs to be added to my original statement of the Washington Consensus to make a reform agenda for Latin America today. If much of it applies to Poland as well, that is a bonus.

Grzegorz W. Kolodko, TIGER: Thank you very much Professor Williamson. There is time for questions now.

Krzysztof Kalicki, LKAEM: I believe, I have a very provocative question. What is wrong with the policy of the United States or Europe in the context of Washington Consensus? I am asking about huge volatility of exchange rate of US dollar and euro. Many people say, we have no fundamental exchange rates any longer, we have only expectations. What do you think about it? The second question is whether you share the opinion that there is a surplus of liquidity coming to the world economy from one or two sources. What are the consequences of this situation for the world economy?

Ryszard Michalski, Foreign Trade Research Institute: As for me, Professor, I would like to ask you about your opinion on the tax policy. In the European Union we have now a fierce debate over the flat taxation, over the tax competition. You have mentioned in your lecture several times the tax issue, but rather vaguely. So, if you could be so kind to extend your opinion about it.

Grzegorz W. Kolodko, TIGER: I have two points and would like to listen to your comments. First, you mentioned briefly at the end of your presentation the meaning of the institutions. Our criticism here in this town, in this country, in this part of the world economy was especially towards the interpretation of the Washington Consensus being given by the Bretton Woods institutions, which was somehow different from what you had in mind, as you explained it today and in your papers. The criticism was that this was void of the institutional building aspect, which was the biggest challenge for the transition economies. Misinterpretation of the early Consensus did caused much more harm than good at the early stage of the post-socialist transformation. How would you react to this issue?

The second issue is as follows. If we take a look at the greatest success of the last 15 years in the world economy, this is India and this is, first of all, China – together more than 2 billion people. More than 300 million people have been taken out of poverty or above the poverty line, and by all means it has been done by executing the policies which were not based on Washington Consensus as seen by the Bretton Woods institutions, especially the IMF orthodoxy. How would you comment on that and how would you say it was relevant for the challenge of these two emerging markets?

John Williamson: First of all, the question of the United States and the exchange rates. Volatility is a fact of life and I think it is going to continue as long as we continue insisting on having an unstructured floating exchange rate regime of the sort that in fact we have. I have actually heard a senior policy maker in the United States, who argued that it was improper to think about what exchange rate ought to be - the dollar/euro rate or something of that sort. The argument was that if the market decides what capital flows should be and capital flows determine
what exchange rates should be, this is not a business of governments and the governments have no business thinking about such things, and public officials like Jean-Claude Trichet should not get upset and say rude things if euro gets pushed to a level that some German or French manufactures find unattractive. That is the world we live in. That is not how I personally would think the world ought to be organized. I am not a sympathizer of a freely floating exchange rate. I think that when exchange rates become far too strong or far too weak at times and so, at least intervention designed to stabilize rates with some basic notion of where they ought to be seems to me to make a lot of sense. That is however not the dominant view and I do not expect to see a big change in that direction.

Secondly, excess liquidity in the world. It seems paradoxical that there are lots of symptoms of excess liquidity like house-price booms in a number of countries, and yet there isn’t strong growth or strong inflationary pressures on those things that one usually associates with excess liquidity. I agree with your observation, but I am not sure that I have anything very useful to say about what the appropriate policy reaction is. If one has a house-price boom and one is not having other types of boom, then I would search for policy instruments which might be able to address that, maybe a taxation of houses or mortgage income increasing or thing like that.

On the question of the tax policy in the European Union, we recently had Martin Wolf visiting the Institute of International Economics in Washington and one of the interesting things that he said was that the only way in which we can see any example of the race to the bottom being instigated by globalization is in terms of taxation. There are some countries not very far away from here, which have introduced a zero tax rate on corporate profits. One does begin to wonder whether things like that do not damage a tax revenue or whether there ought not to be some restraint. I guess that one would not want to make it impossible to change the average level of taxation if one introduced some restraint here. It would be framed in terms of not more than X percent different to the average tax rate – that is something of that sort that I think you may have to move towards in a longer term.

On the question on institutions and the transition, I actually agree with you, certainly in that aspect that the big weakness in the early stages of the transition was that there was far to little emphasis on building institutions. I also think that it is something that we would handle very differently nowadays; partly because of the overall evolution of the economic thought and the fact that the institution building does occupy much higher profile today than it did at the time when the transition started. To what extent can one hold the Bretton Woods Institutions responsible for that? They certainly were not pushing that agenda at the time - that is absolutely true, but there weren’t many other people who were pushing it either. I think fairly early it began to be recognized that it was not just a matter of the macroeconomic stabilization; that there were some pretty big microeconomic changes that we needed as well. I guess the criticism that I would make, I am not sure to what extent of the Breton Woods institutions, is that certainly there were some economists who argued that if you privatized in a sort of automatic way, it would lead to emerging institutions for the market economy, and that there were no reason to think in advance about the form that those institutions should take. I don’t think that is realistic and if that is what you were fighting then I think you were basically right.

On China and India, it is very interesting that you cite China and India as examples of countries that didn’t follow the Washington Consensus. I remember last September being told by two Chinese leaders, that the reason for their success was that they had followed the Washington Consensus, so it depends what you mean by the Washington Consensus, I guess. Certainly they did not liberalize the capital account and as I tried to argue today, I did not regard that as a big mistake. The changes that they made were all in the direction of liberalizing. They did not do
much in a way of privatization, they were taking their time over that. I do not think I am
enormously worried about it. Personally, I would argue for more rapid privatization than they
have done, but I do not think it would be appropriate to have an international institution that
attempts to force them to privatize more rapidly. All the changes they have done have been
towards opening up, towards liberalizing. China has been better on the macro discipline than
India, which nowadays has a massive budget deficit of 10% of GNP, which is, to my mind,
asking for trouble. Although so far they are a country that has never defaulted on their debt and
therefore, even though they would have a debt to GDP ratio of 80% so far they find it easy to go
on selling public debt. A crisis will come one day though, if they do not think their policies over.

Grzegorz W. Kolodko, TIGER: Thank you very much professor Williamson for visiting us and
presenting the lecture. The lecture will be published in a hard copy and will also be available
soon on our TIGER website for further concerns. I am sure the debate must continue so maybe
we will produce in a forthcoming future another paper on the Washington Consensus with the
“Warsaw touch” because we have been debating the issue for a long period of time. Thank you
again for coming and being today with us.


References


Table 1: Rodrik’s Augmented Washington Consensus

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<tr>
<th>The Original Washington Consensus</th>
<th>The Augmented Washington Consensus</th>
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<td>Fiscal discipline</td>
<td>Legal/political reform</td>
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<td>Reorientation of public expenditures</td>
<td>Regulatory institutions</td>
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<td>Tax reform</td>
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<td>Financial liberalization</td>
<td>Labor market flexibility</td>
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<td>Unified and competitive exchange rates</td>
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<td>Deregulation</td>
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Source: Rodrik (2002).
The Washington Consensus was not giving enough attention to the institutional aspect of development policy. It was also not concerned enough with the social consequences of vast liberalization and rapid privatization in the post-socialist economies. Therefore, the policies based on an oversimplified interpretation of the early Washington Consensus, as in the case of Poland’s so-called shock therapy were quite unsuccessful, and in the first half of the 1990s in Russia, were rather a failure. The title of the lecture is “Differing Interpretations of the Washington Consensus.” Professor John Williamson, who still holds his British citizenship, has been involved since the beginning (1981), with the Institute for International Economics located in Washington D.C., recently as a Senior Fellow. The Washington Consensus refers to a set of broadly free market economic ideas, supported by prominent economists and international organisations, such as the IMF, the World Bank, the EU and the US. Essentially, the Washington consensus advocates, free trade, floating exchange rates, free markets and macroeconomic stability. 5. Mis-interpretation. The second point about redirecting of public spending towards public sector initiatives like primary education, primary health care and infrastructure investment, has often been ignored. Instead the “Washington Consensus” has come to refer to more market oriented policies, which have focused on less government intervention. The “Beijing Consensus” as a concept has been utilised to distinguish China’s economic development experience from the “Washington Consensus” (WC), the policy toolkit offered to developing countries by Washington-based international organisations. This paper posits that recent Chinese initiatives in the international political economy constitute the building blocks of an emerging BC with potential to significantly influence developing countries’ economic development trajectories. The Washington Consensus is a set of ten economic policy prescriptions considered to constitute the “standard” reform package promoted for crisis-wracked developing countries by Washington, D.C.-based institutions such as the International Monetary Fund (IMF), World Bank and United States Department of the Treasury. The term was first used in 1989 by English economist John Williamson. The prescriptions encompassed free-market promoting policies in such areas as macroeconomic stabilization, economic...