The World According to John Williamson: Part II

John Williamson discusses the origins and distortions surrounding "the Washington Consensus," a phrase he coined, and the challenges facing policymakers in Europe and the United States.

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Steve Weisman: John Williamson, senior fellow at the Peterson Institute for International Economics, is back for Part II of his discussion with me, Steve Weisman, on the occasion of the issuing of a book in his honor. We began in Part I talking about the devaluation debate when you were at the British Treasury in the 1960s. This sent you into a life-long interest in exchange rates and studying their contribution to the external imbalances that contributed to the most recent crisis. How did you, in a personal sense, become so deeply involved by this subject?

John Williamson: Actually, it happened even before entry into the Treasury. When I was in graduate school, I remember being particularly concerned by external imbalances and taking very seriously an article by John Black, the economist, which discussed the possibility of a crawling peg. That was how I eventually got the idea, but he didn't call it a "crawling peg." But why did I become interested in this? I don't know. One becomes particularly interested in a particular field, maybe for a good reason, maybe for no reason at all. I don't recall us having a strong experience that this was to be the field in which I was going to work.

Steve Weisman: And of course, Fred Bergsten and Randy Henning point out in their introductory essay to the book that at the Plaza and Louvre Accords in the 1980s embraced the idea but not the terminology.

John Williamson: I think one understands that. While I think it's rather childish, it's nevertheless a political reality. One lives with it.

Steve Weisman: Speaking of terminology, the phrase "Washington consensus" is associated with you. You came up with the phrase to describe a set of conditions to which countries, especially developing countries, might aspire. It has been misinterpreted. Review that for me.

John Williamson: I was actually giving an outline for a conference on Latin America. I said the ten policies on which everyone in Washington more or less agreed everyone in Latin America ought to be doing it. And this then went on to be an assertion that only growth matters and all sorts of other things that weren't implicit at all in the segment: that one was in favor of minimal government. I said that government in Latin American had become overextended in 1989, which I happen to think is true. But that's not calling for minimal government, which is a completely different set of ideas. But nevertheless, they got confused in the public mind.

Steve Weisman: Well, when you spoke of the "Washington consensus," also you were referring more to Nineteenth Street [between the World Bank and the International Monetary Fund] than to Pennsylvania Avenue.

John Williamson: Yes, I think that's true. I was thinking of the international institutions in particular. But also I think there was, at that time, a strong measure of agreement also in Pennsylvania Avenue in the White House and the Treasury that it is important to have those particular policies followed in Latin America.

Steve Weisman: On capital controls, there's been a misinterpretation, isn't there?

John Williamson: There's a misinterpretation according to what I wrote. It [the phrase] didn't in fact apply for the complete ban on the capital controls and indeed it only applied for the liberalization of inward foreign direct investment, which is a very different matter. I'd actually go rather further than that and I'd say that if you're going to favor foreign direct investment, then you'd better encourage foreign equity investment because you don't want to be discriminating again domestic firms in favor of foreign firms, which is what's implied by encouraging for FDI [foreign direct investment] and not for foreign portfolio investment.

But nevertheless, I clearly don't believe that liberalizing short term capital inflows was a clever idea. I didn't at the time and I don't now.

Steve Weisman: On Europe, which has struggled, you have said that the European currency union was probably ill-advised in terms of bringing in the southern European countries. How do you assess the situation now?

John Williamson: I continue to think that it's going to survive as a currency union. I think the cost has been quite high to the countries in southern Europe, which are all required to deflate. Unemployment rates are terribly high in some of the countries now. In Spain, half the young people [are] unemployed and don't have a job. That's really a very high price to pay for an idea of a currency union. But we've got ourselves into this situation. I don't think we're going to cure it by withdrawing from the currency union now, so I therefore think that the best we can do is to plod on. It's a pretty miserable prospect, but that's the situation we're in.

Steve Weisman: And for the United States, some say there is an equally miserable prospect of fiscal consolidation. You said in your book that the tax side has to be considered part of the solution and that the United States is under-taxed, Americans are under-taxed.

John Williamson: I'm amazed at how many good subjects of taxation which are completely untaxed for the first time. I think carbon is a prime example. One could do with a good, stiff carbon tax, which would send the coal industry reeling. That's all to the good. Then there's advertising -- another completely wasteful subject on which no tax is paid whatsoever at the present time. One could easily envisage a 20 or 30 percent tax on advertising, which would bring in a lot of money and would have beneficial effects in limiting the extent to which we are bombarded with these unnecessary things at the present time.

Steve Weisman: John Williamson, I congratulate you. It's been my personal pleasure to work with you these last few years. I wish you all the best.

John Williamson: Thank you very much.