

On Designing Economic Policy

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Outline

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

Policies in Normal Times

- Monetary policy: inflation stabilization
 - Plus regulation (2 instruments for the 2 objectives of price and financial stability)
- Fiscal policy:
 - Aim for net debt/GDP = 0
 - Use built-in stabilizers
- Exchange-rate policy
 - Not redundant because world is not REEM
 - REEM = rational expectations, efficient markets
 - Primarily, not exclusively, by oral intervention.

Crises (aka Abnormal Times)

Aslund's twelve rules:

- Recognition
- New leadership
- Clear principles
- Concentration
- Change of constitutions etc
- Program should be comprehensive, consistent, credible
- Don't seek consensus
- Transparency
- International support
- Finance
- Early and decisive implementation
- Curb expenditures but maintain equity

Perpetuating Normality

Perpetuating normality requires removing the punchbowl just when the party is going

So the problem is fortifying the political resolve

- Value of fact-checking
- Fiscal rules
 - But they either are cyclically destabilizing or else riddled by exceptions
- Fiscal councils

Perpetuating Normality II

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

Possible Fortification of Election Watchdogs

Have to consist Predominantly of Economists

- How to Achieve a Useful Measure of Professional Agreement
 - Restrict questions to the economic
 - Selecting the panel of economists
 - Choose a pool approved by all the parties
 - Then the parties pick candidates from the pool
- How to Have Prognostications Taken Seriously by Electorate
 - Gradual process
 - But many electors are tired of half-truths
- How to Get the Politicians to Accept Them
 - Political acceptance is integral to this proposal.