



Shock Therapy and the Washington Consensus: A Comment

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This short comment on the article by John Marangos welcomes the author's care in distinguishing alternative concepts of the Washington Consensus and distinguishing them in turn from the idea of shock therapy. It discusses several differences between what Marangos terms the "Washington Consensus Proper" and "Shock Therapy", such as the role of aid in financing budget deficits, voucher privatization, and price liberalization, and argues that these reflect differences in time and place rather than ideological disagreements.

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I welcome the recognition in this paper that the term "Washington Consensus" has been used to mean very different things by different people, and that the semantic sloppiness of failing to recognize this has led to considerable and unnecessary confusion. It is also useful to see the shock therapy prescription for transition economies contrasted systematically with two versions of the Washington Consensus, and to see it demonstrated that these are three different agendas. Perhaps Marangos assumes too readily a homogeneity of views within each camp that may be lacking: one wonders, for example, whether all who have advocated shock therapy would also subscribe to the desirability of a tax-based incomes policy during the transition. It remains my view that clarity would be aided by discussing the substantive issues raised in the paper without ascribing them to schools of thought who are supposed to share common views on a long list of issues.

Perhaps the most general lesson to be drawn from the Marangos' comparisons is that a policy agenda needs to be specific to time and place. It was perhaps a stretch to identify 10 issues that were pertinent in practically all



the Latin American countries at a particular point in time, but this is distinctly less absurd than claiming that a given ideology has universal answers that apply everywhere and at any time. A number of the distinctions drawn between what is called the “Washington Consensus Proper” and “Shock Therapy” seem to me to reflect more the differences in time and place rather than ideological contrasts. For example:

- The possibility of financing budget deficits by aid was simply not on the table in Latin America in 1989. I certainly did not argue for it, but so far as I am aware I did not inveigh against it either; it was not an issue.
- Voucher privatization was an interesting idea that no one had thought of in 1989. Its failure to produce effective enterprises precluded rapid privatization of large firms being a sensible strategy. In my view that was not a disaster, because British experience showed that a state enterprise in the process of being privatized was a rather good (if necessarily transient) form of industrial organization, at least if the managers were motivated by getting a cut in the ultimate privatization proceeds.
- Institutional development, including the creation of those institutions needed for owning property, seemed to me to be a fundamental necessity for the transition economies, but Latin America already had those institutions. (The idea that the right institutions would automatically emerge if markets were permitted always struck me as fanciful.)
- The establishment of independent central banks is another sensible idea that has now received substantial empirical support, but it was not on the agenda in 1989.
- The primary reason for not including price liberalization in the original Washington Consensus was because there were no extensive price controls in Latin America in 1989, not because of doubts that free market prices make more sense than prices set by government edict. I admit, however, that in the passage cited I equivocated about whether wage and price controls might not permit a less costly reduction of inflation. (A much more interesting issue is whether a better strategy for liberalizing a socialist economy than shock therapy may not be the dual-price strategy adopted by China. My tentative answer is that the dual price strategy is preferable if one starts from a fully controlled socialist economy, say like the Soviet Union still had in 1985; but I do not believe Gaidar had that option in 1991.)

In other words, many of the differences that the paper suggests distinguish the Washington Consensus (proper) from shock therapy arise out of differences in what was on the policy agenda a few years later, or else differences in the circumstances of the two regions. This surely provides yet another reason for abandoning the practice of debating economic policy in terms of the Washington Consensus versus shock therapy or neoliberalism or some other ism.