THE BROOKINGS INSTITUTION

WEBINAR

WASHINGTON CONSENSUS REVISITED

PART I

Washington, D.C.
Friday, September 23, 2022

PARTICIPANTS:

Welcome:

BRAHIMA S. COULIBALY
Vice President and Director, Global Economy and Development, Brookings

SESSION 1 | WASHINGTON CONSENSUS OVERVIEW

Moderator:

CARMEN M. REINHART
Minos A. Zombanakis Professor of the International Financial System, Harvard Kennedy School

Presenter:

ANUSHA CHARI
Nonresident Senior Fellow, Global Economy and Development
Visiting Professor of Economics, Harvard University

Discussants:

PENNY GOLDBERG
Elihu Professor of Economics, Yale University
Non-resident Senior Fellow, Peterson Institute for International Economics

CAROL GRAHAM
Leo Pasvolsky Senior Fellow and Research Director, Global Economy and Development

SESSION 2 | LATIN AMERICA EXPERIENCE

Moderator:

ALEJANDRO WERNER
Director, Georgetown Americas Institute, Nonresident Senior Fellow, Peterson Institute

Presenter:

ILAN GOLDFAJN
Director, Western Hemisphere Department, International Monetary Fund

Discussants:

LAURA ALFARO
Warren Alpert Professor of Business Administration, Harvard Business School

JOSE DE GREGORIO
Professor of Economics, University of Chile

* * * * *

P R O C E E D I N G S

MR. COULIBALY: Good morning and good afternoon, everyone. My name is Brahima S. Coulibaly. I'm the vice president of the Global Economy and Development program at Brookings. On behalf of myself, Gordon Hanson, and our respective institution, it gives me great pleasure to welcome you all to the symposium on the Washington Consensus Revisited. It is co-organized by the Brookings Global Economy and Development program, and the Harvard Center for International Development.

Before we start, let me note that this symposium would not have been possible without a working contribution of the authors of the papers, and the leadership of Peter Henry and Gordon Hanson, who unfortunately will not be with us today due to a last-minute change in plans outside of his control.

It was in early 2020, when Peter informed me that he's discussing with Gordon the idea of a collection of essays for the Journal of Economic Perspective, which will focus on revisiting the Washington Consensus. It was immediately clear to me that our broad community of academics, policymakers, students, and other stakeholders will benefit from a new set of analysis and discussions on the Washington Consensus, leveraging additional years of new data and evidence.

It has been now almost a quarter century since John Williamson coined the term "Washington Consensus." In its original formulation, we refer to a set of 10 economic policy prescriptions, considered to be the standard approach to the cause, that were prescribed by Washington-based institutions, notably the IMF, the World Bank, and the U.S. Department of Treasury to improve economic performance for crisis affected countries in what was then known as the Third World.

These market-oriented policies centered around fiscal discipline, market oriented domestic reforms, and openness to trade and investments. The Washington Consensus inspire international institutions and policymakers in many countries to pursue reform agendas that were resisted as aggressively as they were pursued. And there have been heavily criticized for failing to improve socioeconomic conditions.

I cannot think of an economic policy framework that has been as influential and as controversial at the same time as the Washington consensus. Yet a quarter century later, there still does not appear to be a consensus on the effect of these policies, and perhaps there will never one. The effect of economic reforms tend to play out over time. And the reforms are also inherently disruptive. As such, the short-term impact can be very different from the medium and long-term impacts.

So, a key contribution then of the symposium papers that would be discussed today is to reexamine the evidence with the benefit of more data and doing so across regions. The four papers offered new, fact-based insights on the effectiveness of the consensus policies. And I will encourage you to read them, if you haven't already.

The symposium could not have been more timely. Recommendations in the papers provide helpful guide to policymakers, as they ramp up structural reforms to build back better in the post-COVID world, and to navigate the current challenging and very complex global economic environment. There have been very few moments in history when the world face the current confluence of global shocks and prices. From lingering COVID-19 pandemic, threat of widespread food and energy insecurity, the surge in inflation, looming crisis of development, financing, and sovereign debt, high risk of a global recession, to the geopolitical crisis.

It's a very difficult and unprecedented environment with policymakers in unchartered territory. So, more than ever, they can benefit from the best practices and economic reform to not only navigate this complex set of challenges, but also to lay the foundation for a more resilient, inclusive, and sustainable recovery.

As was pointed out in one of the papers on the Latin American experience, there are "risks that the region will revert part of the Washington Consensus reforms, which are necessary building blocks for a new agenda, more for personal and social integration, a fair and just society, and environmentally sustainable growth based on better education."

Indeed, during the pandemic, many countries implemented protectionist policies, ranging from border closures, restrictions on trade. And similarly, export restrictions have been introduced for food, fuel, fertilizers, following the Russian invasion of Ukraine. And many of these restrictions are still in place to date.

There is a risk that policymakers will increasingly resort to protectionism as a policy response to shock or turn inwards to bolster the self-sufficiency of the economies, either out of national security concerns or to better manage future pandemic, all of which are in apparent contradiction with the Washington Consensus.

Also, the fiscal outlook has deteriorated considerably globally. By some estimates, 60 percent of low-income countries are either ill or at high risk of debt distress. The rapid pace of interest rate increase by major central banks could precipitate widespread sovereign debt crisis in the developing world, and not unlike really the situation that motivated the Washington Consensus policies several decades ago.

And this is particularly concerning in an environment where we do not have the well-functioning framework for debt restructuring, despite recent efforts and progress with the establishments of the common framework on debt treatments. We hope for the best, but it is conceivable that several countries would need significant assistance from international financial institutions to manage these challenges in the years to come.

In that scenario, will the Washington-based institution prescribe the same policies as they did in the past, or would the lessons learned from the past experience, as well as the evidence presented in the symposium papers, inspire international and national policymakers to make some adjustments to the policy frameworks and implementation strategies? It is in this regard that I believe this symposium and today's conversation are very timely.

So, drawing on the papers as well as my own assessment, the following four lessons on reform stand out for me. First, meaningful reform are inherently disruptive and often with hardship in the short term. It is therefore important to consider remedial measures to minimize the socioeconomic impact on the most effective segments of the populations. The very success of the reform agenda might depend on getting this aspect points.

Second, when it comes to the reform, one size does not fit all. Its uniform policy needs to be carefully considered against institutional context, initial conditions of development, and social political environments, among other factors. Third, ownership of the reform agenda by local governments with stakeholder buy in is important to encourage support for the reforms and to increase the likelihood of success.

Forth and finally, even with the right reform agenda and implementation plan, success is not guaranteed. As such, it might be appropriate, whenever possible, to proceed incrementally, learn lessons from early implementation, make necessary adjustments before scaling out. In some, form should be a process of continuous revaluation, adjustment, and recalibration over the reform period. And it must be approached with flexibility and humility.

I would remiss if I concluded my remarks without paying tribute to John Williamson, who as you know passed away last year. He spent a considerable amount of time, until his passing, to clarify the difference between his original formulation of the consensus and the version that has turned to be associated with market fundamentalism, from which he distanced himself. He also regretted the way some reform agenda were implemented in the name of the Washington Consensus, which he believed, and I quote, "never enjoyed the consensus in Washington or anywhere else."

I'm very pleased to share that his daughter, Theresa Williamson, learned about the symposium and reached out to us. She is currently with us. So, Theresa, with that legacy we'll endure, and we are really honored by your presence.

Before I turn it over to Carmen for the moderation of the first panel, I would like to acknowledge two other co-organizers of the symposium, Anusha Chari and Belinda Archibong, who joined Brookings last year with David Rubenstein Fellows. I'm also really grateful to the communication staff of Brookings, particularly Katie Portnoy and Esther Rosen, and other Harvard Center for International Development, and my assistant Wafa Abedin for working tirelessly behind the scenes to help make this event possible.

And finally, we are indebted to all our new panelists, moderators, and authors for your invaluable contribution, and we look forward to a rich discussion. So, with that, I'll now turn it over to you, Carmen.

MS. REINHART: Can you hear me? Can you hear me? Good morning. Very good. Well, it's a pleasure really to be here at this panel, you know, among a group of friends and people that --

remembering also the work of people that we admired very much. I was connected to John Williamson when I spent time at the Peterson Institute and had the pleasure of knowing him for many, many years.

I am Carmen M. Reinhart. I'm Minos Zombanakis Professor of the international system at Harvard Kennedy School, and I served as World Bank Chief Economist until this summer, when I was on public service leave from Harvard. So, it is my pleasure to present in this panel.

Anusha Chari, who is Professor of Economics and Finance at the University of North Carolina in Chapel Hill, she also serves as Chair of the American Economic Association Committee on the Status of Women. I had the pleasure of listening to this paper when she presented it very recently at the Harvard Kennedy School, where we're very lucky to have her visiting us.

And discussants, Penny Goldberg, Elihu Professor of Economics, Yale University, she is a non-resident Senior Fellow of the Peterson Institute for International Economics and the Growth Center. She also is at the Growth Center in Yale. She was also my predecessor as Chief Economist at the World Bank Group between 2018 and 2020.

And then a former colleague, Carol Graham, who I haven't seen in a while, is the Leo Pasvolsky Senior Fellow at Brookings, College Professor at the University of Maryland. I spent many years at University of Maryland, we were colleagues there, and galley of Gallup Senior Scientists. She served on the National Academy of Sciences panel on well-being metrics in 2012, 2013. And has received, like our other panelists, numerous awards and recognition.

Anusha's going to present a joint paper today with Peter blood, the papers with Peter -- the papers with Peter Blair Henry and Hector Reyes, on The Baker Hypothesis: Stabilization, Structural Reforms, and Economic Growth. As we have aptly heard, this is of course a very timely discussion, given that in many emerging markets and developing economies, conditions have turned rather grim once again.

And many of the issues of renewed, stagnant growth, lack of recovery from the pandemic, high debt levels, increasing levels of poverty, and the deterioration in a broad spectrum of economic indicators raises all the questions that Anusha is going to talk about and, hopefully, what lessons we learn.

Let me -- I have to say this, I am so skeptical we ever learn lessons. I see many of the old mistakes being -- from the 1980s being repeated now. But with that note of caution, Anushka, the floor is yours. You have 15 minutes. And each discussant will have five minutes.

MS. CHARI: Thank you so much, Carmen, for that gracious introduction. It is an honor and a privilege to be here to present this joint work with Peter Henry and Hector Reyes. I'm going to go ahead and share my screen here.

So, our paper was the paper that we're setting the stage in this symposium of -- a collection of four papers. And we are going to focus on The Baker Hypothesis: Stabilization, Structural Reforms, and Economic Growth. So, as I mentioned, this is joint work with Peter Henry and Hector Reyes, who are both at Stanford.

So, let me begin with an observation and to set the stage in terms of where the Washington, the origins of the Washington Consensus, as they were coined -- as it was coined by John Williamson. What we know is that during the late 70s and early 1980s, developing countries all around the world, ranging from Kingston to Kuala Lumpur ran large fiscal deficits, causing the stock of public debt to increase faster than GDP.

And as these debt to GDP ratios reach critical thresholds and real interest rates on the borrowing in U.S. dollars rose, access to foreign financing ceased, precipitating the debt crisis in the early 80s, which -- where governments increasingly turned to monetizing their deficits as an alternative source of funding, and inflation rates rose around the developing world.

And by 1985, the average rate of inflation in the developing countries approached 40 percent, with many countries spiking into hyperinflation. So, enter Secretary James Baker at a Joint World Bank-IMF meeting in Seoul, Korea on the 8th of October 1985. He basically claimed that if the so called Third World countries implemented certain reforms, they would grow faster than before their implementation.

And so, this is essentially what he said, which is first and foremost the adoption by principal debtor countries of comprehensive macroeconomic and structural policies, supported by the international institutions to promote growth and balance of payments adjustment to reduce inflation.

He then went on to enumerate a core set of reforms, that Coul referred to in his introductory comments, that include first and foremost, inflation stabilization, followed by opening up in the form of trade liberalization and greater openness to foreign investment, as well as allowing for a greater role for the market in the provision of goods and services via privatization.

So, the two goals were really to grow -- once again, to promote growth in the developing world. And secondly, to organically reestablish access to international capital markets. As we know, later on, these reforms were later codified and branded by John Williamson as the Washington Consensus.

Now, we also know that these reforms have unleashed a contentious debate, ranging from people referring to the reforms as neoliberalism, to others claiming that the Washington Consensus has failed. And so, what we're going to do in this paper is to really take a country-specific time series approach to see if the data refute or support the Baker Hypothesis.

And in our view, the contentiousness of this debate is somewhat puzzling because Baker's statements, even if he did not explicitly state them as such, constitute a testable if then claim, which can be put in the context of a solo style model from 1956, which is that if a country implements and maintains certain reforms that I just enumerated, then its GDP will grow faster after the reform than it did prior to implementation.

So, a very large literature essentially resorts to long run, cross country growth regressions, which actually constitute a weak test of this hypothesis. Because they're asking a somewhat different question which is, do countries with low inflation free trade and liberalized capital accounts have on average higher long run growth rates than countries with high inflation restricted trade and closed capital accounts?

So, what we propose instead is to actually look at what happens to growth on impact and in the immediate aftermath of the implementation of reform. And we believe that a time series panel data event study approach that focuses on the country specific timing of these reforms, to explicitly test for the temporary growth acceleration on impact and in the immediate aftermath of policy changes, is essential. And the idea is that this temporary growth trajectory moves a country into a permanently higher level of per capita income or GDP. So, what --

MS. PORTNOY: Hi Anusha. Hi, I'm sorry, this is Katie from (inaudible). We're not seeing your slides advancing. I'm not sure if you're sharing the right screen.

MS. CHARI: Okay. Just give me a second. Let me stop sharing and share again.

MS. PORTNOY: Thank you. It may just be that I couldn't tell if you were trying to advance your slides or not. But we were just seeing your title slide.

MS. CHARI: Okay. Yes, I did actually advance. So, let me -- can you see this advancing now?

MS. PORTNOY: Yeah, thank you. Sorry to interrupt.

MS. CHARI: No worries. So, let me sort of proceed and talk about our findings here. And I will go into slideshow mode and show you our first picture, which is essentially the average growth rate in emerging markets. And as a benchmark, the growth rate in advanced economies over a -- almost a 40-year period, between 1980 and 2018.

And what we see over here is that during the early 80s, or the -- we don't see much catch-up growth. The emerging markets weren't actually growing very fast during this period, in the immediate -- sort of immediately after Baker made this speech.

But what we do see is that growth starts accelerating in the early 90s. And I'd like to show you a figure that sort of illustrates why this might be the case. It was -- if we look at the average year when countries stabilized inflation, it was -- it's sort of around 1993. So, the main year for the inflation stabilization programs in our sample of 53 countries is 1992, and the median year is 1991.

And what we see is that there was a precipitous decline in inflation, which continued forth for the rest of the period, providing that sort of structural -- sort of the macroeconomic stability that was conducive to the implementation of other reforms proposed in the Baker Hypothesis.

And this is what we see over here, that starting in -- if we think about sort of 1993 as a turnaround year, we see that growth starts going up in the developing world. And compared to the period in the 80s, growth increases from an average of about 3.3 percent to 5.2 percent. So, that is an increase of almost two percentage points. And just to put this in context, if a country grows faster by 1 percentage point, we expect per capita incomes to double in 30 years. With about 2 percentage points, it's about 16 years.

The second point is that contrary to popular narratives, this growth did not come at the expense of First World growth. First World growth was about 2.9 percent in the pre-period, as well as the post period, before the global financial cycle. So, what this suggests is that given that advanced economies were not growing, but emerging markets suddenly started growing, it suggests that it wasn't an aggregate global shock, but rather the country's specific reforms that the developing countries have put into place.

And here, we can see that the frequency of the stabilization episodes varies by geography and was concentrated in the 1990s. And Latin America, we have sort of two groups, one is the high inflation group of countries and the moderate inflation group of countries. Latin America dominated in terms of the high inflation countries, and Africa dominated in terms of countries in the moderate inflation group.

And this basically shows us some sort of growth facts related to the post stabilization period in a event study type framework. So, what we have on the X axis is event time. And what we see is that in the aftermath of implementing stabilization policies, country's growth rates on average increased from 2.9 percent to 4.9 percent. And this, in our sample, 37 of the 53 countries had higher growth rates in the post period relative to the pre-periods.

We also see a growth collapse in the high inflation countries. So, the growth benefits of stabilization programs were remarkably -- they were sort of more remarkable for the high inflation rate countries -- inflation countries, where growth actually increased from 1.6 percent in the pre-period to 4.2 percent in the post period. So, that's a 2.6 percent increase, while the moderate inflation countries, the growth rates increased from about 4 percent to five and a half percent.

And it's interesting to see that if you look at the comparison group of advanced countries, which had -- which did not have -- stabilization programs had low inflation, the growth trajectory remains flat.

So, once a stabilization was in place, Baker's Hypothesis was that for those countries which have implemented measures to address the imbalances in their economies, a more comprehensive set of policies can be put into place. And this was mainly focused on market opening measures, such as opening up to foreign direct investment and capital inflows, as well as to liberalizing trade.

And once again, if we look at the trade liberalization episodes in our sample, you can see that following a trade liberalization, the growth rates increased from 1.72 percent, before the implementation of liberalization, to 4.38 percent in the aftermath. And this is a consistent pattern not driven by outliers, where 52 countries had post liberalization growth rates that exceeded their pre-liberalization country specific average. And 53 countries -- and for 53 countries, their median growth rate was higher.

In the paper, we have a sort of a case study of Korea, the cases of South Korea, Taiwan, and Singapore, as countries that had stabilized inflation and liberalized trade much earlier, which sort of these are countries in our view that constitute a test of Baker before the -- before Baker himself came up with these prescriptions in 1985.

The final tenant that I'm going to focus on is the fact that following capital account liberalization, we see a dramatic fall in the cost of equity capital in emerging markets. And in our paper, we focus on the equity markets because we find that these promote greater opportunities for international diversification and for risk sharing, and also help to perhaps address the debt bias in the international financial system by altering the financial mix that is open to developing countries and now emerging markets, away from debt and towards equity.

And what we can see is that we use the United States earnings price ratios as a benchmark. And we see that while earnings price ratios, which are a measure of the economy wide cost of equity capital, fell by about 200 basis points, we see that in developing countries this fall was more precipitous. It was permanent, it was about more than 500 basis points, and it was consistent across countries that implemented the stock market liberalizations. So, 17 out of the 18 countries in our sample witnessed this decline in the cost of equity capital.

We have something to say about privatization. And here, the record is much more of a mixed bag. And we talk about the fact that this really is very context specific. It is nuanced and it is complex. And, you know, it really depends -- and in many countries in South -- Latin America, this was implemented at the firm level. But in the transition economies and in Eastern Europe, we can think about this as an aggregate economy wide shock.

And we talk in the paper about what distinguished different privatization episodes, whether it was gradualism versus sudden shocks, whether they resulted in a greater concentration of ownership following privatization, and whether the transfer of ownership was to private owners, to foreign owners, or to domestic owners. But we can talk more about during the discussion.

What I'd like to just sort of conclude with briefly is a couple of points, which is that Baker speech provided a compass, not a map. In particular, the Baker plan did not address debt relief, which in turn made it very complicated to implement these reforms in many of the countries. And it is interesting to note that the average stabilization year was 1992, seven years after Baker's speech. And it was only on the heels of the of the Brady Plan that we see that the reforms where -- there were conditions that were conducive in developing countries different from these reforms.

MR. REINHART: Anusha, you need to be wrapping up.

MS. CHARI: Okay, so I'm almost done. So, here, we can see that this, sort of the lack of debt relief, is what would cause a great deal of contention and resentment, which is Baker's insistent that countries reform without banks accepting some of the responsibility placed on the leaders in the developing world put them in a politically untenable position and ignited a firestorm storm off of critiques.

So, let me just sort of end by saying the following thing, which is that macroeconomic stability and economic efficiency are not sufficient conditions for a flourishing society, but they're absolutely necessary.

It remains a fact that economic activity does not implode in countries with low inflation and modest debt but export good that they produce efficiently while importing those that they do not. And as the fortunes of nations ebb and flow, it is important to remember these realities. So, let me just sort of stop there.

MS. REGINHART: Thank you, Anusha. So, next up, we will hear from Penny. So, Penny, the floor is yours. You have about five minutes. Thank you.

MS. GOLDBERG: Thank you. Can you hear me? So, first, let me thank the organizers for giving me the opportunity to comment on this paper. I summarized my reaction in my very first sentence. I very much agree with the message of the paper, which is that the Baker Hypothesis, in general, has worked. I think it's a message that's extremely important in timing.

We are facing -- as Carmen said, we are facing multiple crises on multiple fronts. And there seems to be a worldwide backlash against the current economic system, whether you call it the neoliberal or capitalist or global economic system. And while it's important to be critical and study the past, we draw lessons from the past, think it's also important to acknowledge success where we've had success. And I think the paper does that successfully.

Methodologically, the paper starts with a point that, again, I fully agree with, namely that cross country regressions don't tell us much about the success of the Baker Hypotheses. And the reason is there are too many differences across countries. But also, the hypotheses never said that some countries are going to do better than others if they adopt certain policies.

The statement was more about each country itself, that each country will do better compared to its past, if it adopted some wise economic policies. And so, the authors propose a paneled framework to address this question. The paper actually doesn't conduct panel analysis, but looks at the set of bilateral correlations, which are shown in a series of graphs.

Again, this is something I like, the questions the paper addresses are extremely complex. If someone is predisposed to find faults with the Washington Consensus, they would never be convinced. But I think a reasonable person would find these correlations and these graphs quite persuasive.

And finally, another important aspect of the paper is it draws a very clear distinction between the hypotheses and the plan. So, as Anusha quoted, you should interpret these as a compass, not a map. A lot of the criticism associated with the Washington Consensus has to do with how these policies were implemented in practice, with no regard to the particular conditions country -- countries face, that overhang and so on. So, we are reminded, once again, that it's not just what you do, it's how you do it. Again, the paper is very careful to point this out.

So, against this background, it's perhaps interesting to ask ourselves, why has the Washington Consensus generated so much controversy? After all, it promoted a set of policies most economists would agree with. I don't think any economist would claim that high inflation promotes economic prosperity, no matter how we define this economic prosperity, or that we enclose -- having an autarkic economy, is good for the economy. No economist would actually endorse such a view.

So, why has there been such criticism of the Washington Consensus? And there, let me offer three thoughts in the remaining time. The first is that there has been an exclusive focus on growth, and the paper suffers a little bit of these -- from these. I think growth is a very reasonable metric, especially when it comes to low-income countries. We know that growth, especially at low-incomes, is correlated with many positive incomes. But it's not the only measure of welfare.

So, an additional measure that I would consider to be also uncontroversial is poverty. And if you look at what has happened in the last four decades, it's definitely true that growth is highly correlated with poverty reduction. But it's not perfectly correlated. And I have some work with Tristan Reed of the World Bank, where we show that about 40 percent of instances, if you look at the last four decades, I've had cases where economies go very fast. They're about 40 percent of the cases where the growth did not translate to extreme poverty reduction.

Another metric is inequality. And even if you don't worry about inequality, based on ethical considerations, based on philosophy, one reason to worry about this as economist is when economies become extremely unequal -- and we saw an increase in inequality in the last few decades -- this may eventually become an impediment to growth, because people revolt. So, this is another metric that, again, the paper and, in general, the discussion revolving around the Washington Consensus did not take into account.

Second, it it's very often the case that the conditions -- these principles associated with the Washington Consensus -- were interpreted not just as necessary but also a sufficient conditions. And Anusha was very careful to point out in the last slide that we should not interpret their work as suggesting that these conditions are sufficient. But again, in the economic analysis, in the paper, there is an implicit assumption that these policies were responsible for the success that the paper documents.

There are many other things going on in the background, and the paper doesn't always control for those. Again, given the complexity of the questions, I think just looking at the data, just looking at graphs and exploring temporal correlations, it's strongly suggestive. But the problem with suggestive results is one can also find faults with them.

And finally -- and that's my last comment -- the paper shows quite convincingly that, on average, these reforms deliver. For policymakers, I think this statement is not enough. Reforms tend to be very disruptive and politically costly, especially in this particular context. So, telling a policymaker, telling a government that "if you implement these reforms there's a good chance that the economy is going to do well," this is not good enough. The bullet -- I think policymakers don't think probabilistically, they want certainty.

And from my point of view, it will be important to study the failures and not just the average success. And there have been many failures, and the paper mentions many of those. So, in each case, in each table, the paper mentions the reforms worked for this set of countries, but these are these are the cases where the reforms failed. I think it's important to actually study the failures and try to understand which factors contributed to these failures.

And I have to say, that's the plan today. That's what we're going to do in the next few hours, by focusing on Latin America and Africa. These are -- whenever we think about the success of the Baker Hypothesis or the Washington Consensus, we all have East Asia in mind. We tend to focus on China and Korea and Vietnam, and so on.

But we forget that there are many other places in the world where the Washington Consensus didn't deliver as much, especially in Latin America and in large parts of Africa where poverty still high. And that raises the question, why didn't the consensus, why didn't these policies work there? So, we're going to talk much more about this later today.

Just two quick thoughts, I think with Latin America, one hypothesis is that these reforms were never consistently implemented. That is consistent with what Ann Krueger pointed out.

I think in Africa, the story is a little different. When it comes to trade, for example, Africa opened up. Africa is one of the most open, externally open continents there is. However, the markets are still segmented domestically. They're not integrated domestically. Plus, Africa opened up to the world at the same time when China was opening up. So, instead of getting access to lucrative high-income markets, Africa faced intense competition from China, which at the time was a lower-income country.

So, the economic environment today, going forward, is much more complex than it was three, four decades ago. And there are many challenges low-income countries face that they didn't face before, including competition from countries like China, countries in East Asia. So, that raises a whole set of new questions about whether the same kind of policies are going to deliver going forward.

These are very difficult and broad questions, and I don't have much time. So, I will stop here. To conclude, I think this is a great paper to set the stage, by focusing on the successes of the Washington Consensus. And I think it sets the stage for the discussions we're going to have in the rest of the day that focus on particular continents and particular countries and delving into the specifics. Thank you.

MS. REINHART: Thank you, Penny, for those very insightful remarks. And I share many, many, if not all of them. Now, we're going to talk -- turn to Carol. Carol, the floor is yours. Good to see you.

MS. GRAHAM: Good to see you after so long as well. Maryland days are long ago, I think. But anyway, so first of all, I agree with so many or Penny's remarks. And with some of the basic conclusions in the paper, you know, very strong and important is the necessary but sufficient one.

And the idea that that, you know, without macro stability and without sort of basic macro reforms that most of the successful countries did, you know, you're not going to get anywhere else. It's, you know -- and that in the end, you know, millions of people were lifted out of poverty. There were failures were not as many people were lifted. And I agree with Penny, I think the paper needs to focus more on those.

But first of all, just a couple of points. I very much agree with the papers' methodology in terms of an approach that you can't ask an overtime question and answer it well with cross section data and sort of long-term average growth rates. And the idea that you need longitudinal data in an event study, which is what the charts aim to do, is the way to go. And I think they did a really good job of that in showing the differences in -- you know, before reforms and after reforms in the average for countries.

I very much agree with stabilizing hyperinflation. I lived through hyperinflation in Peru, and it's devastating. And it's most devastating for the poor, but it's also just devastating. Everything else becomes quite impossible. And so, I -- you know, I was happy to see that analysis and the famous Bruno and Easterly paper cited. And that is sort of a basic necessary condition.

And I think also, trade opening, the same thing. Obviously, there are nuances that I'm not going to go into. One point that they make in the paper and make don't -- Anusha didn't highlight in her comment, she didn't have enough time. But it was all capital account liberalization thing. I mean, her -- in her comments, she was quite positive about it. And I'm convinced as well it had some positive effect.

But it did also leave a lot of countries vulnerable to high levels of debt and the debt crisis. And they go into that in detail in the paper, but not -- as she didn't mention her remarks, I think that is one of the points where you can say the reforms failed or left countries vulnerable to failure. And I think we should we should talk more about that throughout the day.

The other -- the big point though is that -- you know, that point that "it's necessary but not sufficient," these reforms, and "why did some countries fail." Again, the paper alludes at that question, but doesn't answer it in detail, as Penny noted. And I think I echo her view that many things were left out in terms of markets -- growth matters. But the nature and pattern of growth also matters a great deal, and particularly to politics, which is what we're facing now on a giant level.

I mean, even in, you know, formally stable, blossoming Chile, we have -- you know, they have big problems, even in the U.S., actually. And I think there it is, it is poverty. And I think it's actually also even more inequality. Whether you like it or not, whether you agree with it or not, people care about inequality a great deal. And people's perceptions of inequality are often not in touch with the reality. But they stem from a sense of injustice. And they are responsible for a lot of protests and governments falling around the world and reforms failing in places like Latin America.

So, I think we do need to think about inequality, not as something, you know, we sort of think about as an aftermath, but something that should be part and parcel of how we design policies. Because many reforms have fallen because of inequality. And so, I mean, ethically, you can have your views on it. I think societies that are very unequal don't work very well. And I think we're seeing that now in the United States, which is -- was supposedly the poster child for market growth and democracy. And I'd say neither is working very well. So, that adds to the complexity of the situation Penny described.

And then I guess the other thing that I wish the paper talked a bit more about -- they did in the case of privatization -- is the whole issue of political economy. Because a lot of the reasons that the reforms failed in certain places were because of political economy, which obviously includes weak institutions. And the countries where the reforms failed tended to have weaker institutions. But there's no real mention of that. It's sort of -- you know, if initial conditions were worse, not just economically but institutionally, leaders had a lot more trouble implementing reforms.

One thing I know that worked very well in Latin America -- and I guess will come up in Latin America section. But one way of at least isolating certain key institutions from politics is independent Central Banks. And again, as far as I know, the countries that implemented those and maintain them did better than countries that did not.

And finally -- I know don't have much time, but I think we should think about, you know, as -- again, echoing Penny that we have to learn from the successes, but also the failures, what went wrong, so that we can we can think about the future. And one approach I think that's an interesting complement to all this -- and I'm biased because I'm, I'm deeply immersed in it, but I think it really matters -- is thinking about well-being as another marker. You know, it is also a marker of progress.

And, you know, we've talked about growth being limited. And the things that matter to people's well-being are indeed having sufficient means and growth attempts to achieve that, and not being in poverty, but also equality, fairness, good health. We haven't talked at all really about the kinds of things that also make societies flourish and growth actually faster or stronger are societies that are both healthy and more equitable.

And I think that should very much beyond the discussion for the future of these kinds of reforms and also the, you know, the future of the international economy and its stability as we go forward. So, I will stop with that, Carmen. And thank you very much.

MR. REINHART: Thank you, Carol. And thank you all. We have a very rich set of questions. I would personally take advantage of being chair and would like to add a comment that I think the authors, you know, definitely deal with it in the paper, but I think needs to be forcefully brought out. It's important to focus, as the paper does, on the reforms countries did. But the international context in which it was done -- namely, also what the G7 -- was extremely important.

As the paper points out, the growth acceleration that takes place really coincides for middle-income countries, importantly, with the Brady Plan of debt restructuring and dealing head on with a debt overhang. And later on, the growth pickup is more delayed in Africa, where the HIPC initiative, it comes into being a number of years later.

The authors are aware of this. But I think you know, that cliche that it takes two to tango. And going forward, I think that's an important consideration. Because so far, what we are seeing, there -- you know, more than 50 percent, more than half of the low-income countries, low and low middle-income countries are either in debt distress or approaching debt distress. And yet, there has been virtually no movement on that front on the part of the G20.

Notwithstanding the common framework, we don't have a single debt restructuring. And so, I think the message that reforms are also enabled by a more benign financing environment is worth keeping in mind.

But we have a rich set of questions. So, without further ado, let me turn to Busisa -- Busisa Moyo has a general question on the formulation of funding for policy, funding for infrastructure, and I guess its connection to growth and recovery. And Anusha, I think the floor is yours.

MS. CHARI: Yeah. So, I think I think that, you know, we don't sort of specifically talk about infrastructure spending in our paper. But clearly, you know, that's another sort of condition that is incredibly important in many countries around the world, as providing that framework to implement growth. So, we've seen this around the world, that if you don't have good roads, you don't have good infrastructure, you don't have electricity, water, et cetera. It is hard for -- harder for countries to attract foreign direct investment, for example.

So, that is another sort of part of, you know, the structural changes and the reform -- the expenditure that is needed in terms of where the fiscal spending is happening, in order to provide those conditions where, you know, if you have FDI, that people can come in and actually, you know, hit the ground running as opposed to trying to, you know, build roads and starting from ground up there. But we don't really focus (inaudible).

MS. REINHART: I want to flag that the questions as they come in, Carol and Penny, if you want to jump in, in any of these, just plow right ahead, please.

MS. GOLDBERG: So, I probably have one additional response. I cannot talk on behalf of the authors. But the way I have always interpreted these principles was us laying out some general conditions that may lead to further policies. Because there are a myriad of policies, we can go down the list. There is infrastructure investment, there is investment in education, human capital, we can go industrial policy. We can go on forever.

But I think the idea behind the Washington Consensus was none of this is going to happen if you haven't managed to control inflation. If you're open to international markets, then you can generate, in some cases, export revenue that you can use to fund all these investments. Foreign direct investment can come and help you fund this infrastructure.

Similarly, there is an implicit premise. And as Anusha said -- this is highly controversial --

that the private initiative can be more successful in finding these infrastructure investments than the public sector. That's highly controversial. But I think there was this implicit premise in the Washington Consensus that one can potentially question, that these general principles can actually fault to the adoption of these other concrete policies. I don't know if you agree, Anusha.

MS. CHARI: Yes, absolutely. Absolutely. It's sort of, you know, the way you put it, that it was establishing the conditions that would then be conducive for further reforms. And that's something that I also wanted to say in terms of, you know, the concerns about inequality, concerns about, you know, the environment, et cetera. They're incredibly sort of legitimate concerns.

But, you know, the initial sort of premise was to create conditions where you can sort of increase the size of the pie, and then we can talk about how to make growth inclusive, how to make growth sustainable, what is the pattern of growth. Do -- does the common man feel like they're being brought along, or do they feel like, you know, that this is not inclusive growth?

So, those are all sort of -- you know, those incredibly nuanced questions, which are, you know, open to further debate.

MS. REINHART: We have many questions. And I think I want to bring up two that I think are in a lot of people's minds these days. One is a perhaps, hopefully, a, you know, more short-lived concern, although short lived can be multiple years. The other one is a long-term concern.

One is directly very much related to the issues you addressed on inflation stabilization. And the question is, is inflation above 2 percent desirable? And the question is -- well, there's above and there's above -- under what conditions of course might you -- and what qualifications? This is on all of you, please.

And the other one that I think is, again, you know -- it highlights the relevance of the work because inflation was something long thought dead, right? But the other question has to do with -- well, the Washington consensus was before we became aware of the very serious climate situation. And so, therefore, you know, is the Washington Consensus now have to account for the impact that promoting trade growth -- there's seeming inconsistency between promoting, you know, rapid trade growth and environmental, you know, impact. So, the floor is all yours, whoever would like to go first.

MS. CHARI: So, I'd like to sort of reiterate this point about, you know, what the

Washington Consensus was. It was sort of, you know, the Baker Hypothesis. It was a compass and not a map, right? So, there -- this, you know -- Coul made this point in his introductory comments that one size doesn't fit all. And I do agree that in retrospect, you know, we didn't think about growth in the context of the environment and sustainability and so on.

And so, I think that that is now in retrospect, to go back and put it on the Washington Consensus, when it wasn't being talked about then. I think there are just really limits to the arguments as to how far we can push this. And as Penny said, it's really thinking about what are those necessary conditions that we need to put in place, establishing general principles from which we can have macro stability from where structural reforms can be implemented.

And absolutely, the nature of growth matters, the pattern of growth matters, whether it's inclusive matters, whether it's sustainable matters. And it's all highly context specific.

And the other sort of point is that the political economy of reforms, I think, was also -- you know, Baker Plan itself did not address by not addressing the debt overhang issue, did not sort of take into account the fact that this would be very hard to implement politically without some debt relief on the table, and it was politically untenable for the for the leaders.

And there are many -- and democracies are messy. And the political economy of reform is incredibly important. Because you can have coalition's that can block particular reforms and sort of thinking about these things. And I totally agree with what Penny said about perhaps studying the cases where the reforms didn't take or where they failed might offer further lessons. But let me sort of stop there and let Penny and Carol sort of add to this.

MS. GRAHAM: Yeah. So, I just want to add to Anusha's excellent remarks. But I do think we have to sort of take a step back. And I very much think we need to think about the future and future challenges. But we have to take a step back to the context in which the Washington Consensus reforms were thought about, the Baker Hypothesis, Baker plan, John Williamson's wonderful work.

And it was a context of a lot of chaos in terms of macro economies and fiscal stability. I mean, as I said, I've lived through hyperinflation in Peru, you know, was in Bolivia also at the time. Those were just unsustainable contexts, right? And they created a great deal of poverty.

And the other thing they created -- and we know -- is that extreme poverty is actually environmentally not very friendly, right? I mean, people burn lots of wood, they don't have anywhere to dispose of their garbage. There's a lot of, you know, all sorts of other things that aren't environmentally friendly about extreme poverty either.

Now, we didn't have a climate agenda at the time. We do now. I think we certainly should and can think about it much more seriously. But I don't think we should sort of second guess the past when, you know, we were dealing with a lot of huge macro problems at the time, and they were very poverty inducing. So, I think that really is something to keep in mind.

MS. CHARI: Yeah. And I think that, you know, the -- there was a lot of accumulated knowledge, but it was untested at the time. And as we see, the adaption of reforms was uneven. And the process was rocky, it was nonlinear, and it was slow. So, you know, it's -- it is incredibly country specific and context specific.

But the question is, you know, do we have some consensus on what are the necessary preconditions to actually go down any of these paths in terms of trying to just spur growth?

MS. REINHART: I want to chime in, and then turn it over to Penny. I think one sentence on the question on inflation above 2 percent. How much above 2 percent matters a great deal? I want to flag the point that inflation is a very regressive tax. So, it goes to the points that Carol has made also about income inequality, about the rise in poverty, in extreme high in hyperinflations.

And especially inflation, as it is today, where in many countries it's not just overall inflation but a relative price swing. So, you have big spikes in the price of food and energy, which are big chunks of household consumption in lowing -- for low-income households. Now, just that reminder on the costs of inflation. Penny over to you.

MS. GOLDBERG: Yes. I had one comment on the question about climate change, because I think this presents a potentially important tradeoff. No matter what one thinks about Washington Consensus, the fact is there was a lot of emphasis on growth.

So, if we take that a scheme -- and as I said, I believe growth is important, especially at low-income levels. But growth, as we've known it so far -- namely, associated with a process of structural transformation where poor countries move from agriculture to manufacturing, and eventually to services -- that kind of growth is dirty, and there is no way around it, unless countries adopt very expensive technologies that are environmentally friendly.

And developing countries don't have the means to do that. So, growth is dirty, and that will present a tradeoff. The alternative that's very appealing to the policymakers these days is to accomplish a type of leapfrogging, where countries go from agricultural directly to the service sector. To a certain extent, India, I think, has managed to do something along these lines. You know, the service sector has been very important in the growth experience of India.

So, a growth model based on services could potentially reconcile this emphasis on growth, and at the same time the concern we have these days about the environment and climate change. Whether this is feasible, I think this is to know. I think this is, for me as an academic, you know, for us academics, I think this is a very important area of research.

You're muted, Carmen.

MS. REINHART: One very last question, just very tight answer. What is -- you know, the growth miracle in Asia was followed by the 1997, 1998 crash. To what extent, the question reads that, you know, the reforms, the substantive growth ends up overheating and ends up in a crash? Have we anything -- learned anything, or any lessons on the economic reforms to avoid the boom bust?

MS. CHARI: So, I'd like to say something here, which is one thing I think that does not -- one point that does not get the attention that it deserves is the debt bias in the international financial system. So, this is why Peter and I were studying stock market liberalizations. Because equity flows actually constitute real risk sharing rather than debt contracts, which are not state contingent.

And I think time after time -- and Carmen knows this so well -- is that countries run into trouble with debt. And in East Asia, that was another sort of feature, which was short-term debt. These countries have very stable exchange rates, and they had short-term debt contracts that were being rolled over. And lo and behold, the -- you know, Thailand goes down and international creditors stop rolling over short term debt. And we sort of see the crisis being precipitated there.

So, one other point I'd like to make, and I'd love for somebody to give me an example of, one crisis that was precipitated by an equity market downturn that happened in a an emerging market, that originated in the emerging market; not the global financial crisis, which, you know, originated in the developed world. So, you know, this issue of an excessive reliance on debt and not equity is something that I would really like to make.

MS. REINHART: Well, I think our time is up. And I want to thank Anusha and Penny and Carol. And those of you that had submitted questions, I apologize. There were a lot of excellent ones, including one that I have to say I'll conclude here.

He asked -- yes, he asked the question of in the late 20th century, the East Asian countries, like Japan and South Korea, grew rapidly with high tariffs and go (inaudible) oversight, very different from the consent Washington consensus. Are there any lessons from that?

But I'll leave that for the next -- food for thought for the next round of meetings. Thank you all very much.

MS. CHARI: Thank you, Carmen. Thank you.

(Recess)

MR. WERNER: Okay. Good morning. Thanks again to Carol and the Brookings Institution for inviting me to this very interesting panel. We will discuss in the next session, the paper by Ilan Goldfajn, Lorenza Martinez, and Rodrigo Valdes, Washington Consensus in Latin America, From World Model to Straw man. We have Ilan to present the paper.

Ilan is currently the director of the Western Hemisphere Department at the IMF. Previously Ilan was the governor of the Banco Central do Brasil from May 2016. And in February 2019, he was elected central banker of the year by the banker magazine. And previous to that, he was deputy governor of the Central Bank of Brasil, chief economist and partner of Itaú Unibanco. And also, he was the chairman of Credit Suisse Brazil's advisory board.

To discuss the paper, we have Laura Alfaro, who is the Warren Alpert Professor of Business Administration at Harvard Business School. And she's a member of the international finance corporation economic advisory board of the Latin American Financial Regulatory Committee, faculty associate at Harvard's Weatherhead Center for International Affairs, and the David Rockefeller Center for Latin American Studies. She served as Minister of National Planning and Economic Policy in Costa Rica.

And finally, we have Jose de Gregori, who is professor of economics at Universidad de Chile. He was the governor of the Central Bank of Brazil, also Central Banker of the Year, I think in terms of inflation reduction. We have no differences of opinion here.

Jose is the Dean of the School of Economics and Business at the University of Chile. He was also Minister of the Economy, Mining, and Energy. He worked at the IMF, and he was a visiting professor at the UCLA.

So with that, Ilan will tell us about his paper. I mean, the paper shows how the Washington Consensus had a positive effect on several dimensions in Latin America. Maybe these impacts were less than expected, or maybe they were a little bit oversold to societies. But I think they clearly show their positive impact.

So with hat, I'll turn it to Ilan. I'm happy to see you, and the floor is yours.

MR. GOLDFAJN: Thank you, Alejandro. It's a pleasure to see you again. Thank you Brookings, for this participation. And I think this topic is quite -- quite important to evaluate the Washington Consensus, because this is relevant for the future of where we're going.

So let me start sharing my screen. I'm going to put it here. I hope you are seeing it now.

So Washington Consensus in Latin America, From Role Model to Straw Man. What I'm going to talk today is first give you a background where it is Consensus for, because the Consensus of -- Washington Consensus started, with context.

Then I will try to evaluate what was really adopted. I mean, taking let's say, the ten Williamson's principles, what was not adopted, what is heterogeneously adopted.

Then we get into three case studies, Brazil, Mexico, and Chile. The cases have adoption, different types of adoptions of the consensus, Chile did, and even Mexico. But Brazil has several different outcomes of the adoption of the Washington Consensus, some more successful, some less successful.

We will look at the performance after three decades of the Washington Consensus, so we have some hindsight to look at it.

We look at the three case studies, how did they fare?

And finally, we will end up with looking at the conclusions, where we go from here.

First, the background. We, we -- the Washington Consensus emerged in the second half of the 1980s, after quite a poor performance. We had crisis, we had the debt crisis, we had inflation, and all sort of stability issues. So the Latin America debt crisis and associated problems led to the need to reestablish financing by private sector. Remember, this is the decade of the '90s of the structuring, issues with stability. So the Washington Consensus somehow wants to establish stability and bring private financing to the region.

It was not the case that all the recommendations were not implemented. Already some of them were there. Sorry about it. Some of them were there. But the idea was implement structure reforms in the context of what we call today macroeconomic problems, but it was responsibility.

So at the end of the day, we talk about revitalization, opening to foreign direct investment, privatization, structure reforms that will attract capital for higher expected potential output growth. So growth was also there.

The consensus policies of the time, when you look at the reaction and you study the literature, did not reflect the consensus at all. We call it the Washington Consensus, but at the time, some expected that the reforms would reestablish macroeconomic stability, prompt growth, bring financing.

Some just saw this as imposition by the US, to increase control over the region. Or other type of ideologies that really saw this Washington Consensus as a way to dominate. Other thought policies will really not be successful. They were not optimistic about that. So the consensus policies did not really reflect a consensus in the region at the time of the adoption.

So what was adopted? Well, let me talk about the ten overarching principles from Williamson 1990 paper. How do they implement? So I'll go over the ten. Let's start with fiscal discipline, fiscal resolve. You want to have deficit lower than two percent over time.

If you look at it in this narrow way, he was not adopted at all by the region. Although some countries, and you see here Chile, actually was -- actually was successful in implementing that specific recommendation.

Overall, what we have today in the region is much more awareness of the need for some enforcement. We have debates on fiscal rules, concerns about debt dynamics.

So at the end of the day, this recommendation was not really adopted in numerical terms. But the idea of fiscal responsibility, I will say, have entered the region, in the general form, despite examples, prices, and some of the outliers.

Another recommendation was trade openness, so the idea that you have to open your economy. That was, in large, adopted. If you look here at the Chile/Mexico, Latin America in particular, you see quite a bit of trade openness. There are exceptions. And here, if you look at Brazil, even though there is some openness, it remains a closed economy. Argentina, too. But we are talking about here, Chile, Mexico, Columbia, Peru. So overall, Latin America did adopt the trade openness.

Now, when we look at net foreign direct investment -- and remember, we were -- at the time, the concern was on the financing, on being able to attract foreign financing.

So here you see, net foreign direct investment. And you see that in Brazil and Chile, you did have quite a bit of a boom, especially later on the '90s, the 2,000s.

But when you look at Latin America, and look at the Latin America average and compare it to the whole, really we did not get so much net foreign vestment in the -- in the region.

When you look at privatization, there's obviously today a lot of controversy about whether privatization was well done, well established, where you have competition on the privatized enterprises.

What when you look at cumulative flows of privatization, we do see that in -- there was quite a bit of privatization. And on -- on some countries, Brazil, Chile a little bit. But in general, there is still debate on that.

Other issues, well, we tend to say that there was not emphasis on education, income distribution. And that's mainly true. But there was an item about reallocation of public expenditure into priority sections -- sectors. And those were education, health, and other -- other sectors.

So it is true, the consensus policies largely neglected income distribution and other social issues. So that was clearly not the focus at the time.

There was also lack of emphasis on education as an essential social mobility tool and a key ingredient for growth. Growth was part of the objective, but not education as a key ingredient.

Since the 1980s, these issues have become increasingly important. So you'll see that there's quite -- some evolution in terms of social issues. But it is hard to say that those were objectives of the Washington Consensus at the time.

What about tax issues, tax teams? Well, the idea was to have a broad tax base, moderate marginal taxes, and strong tax administration.

So we'll say that between 1986 and 1999, the median maximum personal income tax record slashed by 20 percentage points, and the top corporate tax rate by eight percentage points.

So overall, there was some evolution here. Some countries, again, this is very heterogeneous adoption, so it countries like Brazil, even though there was some evolution, still have quite heavy tax burden.

What about market-determined interest rates and real rates? The idea is to have positive real rates, at least positive real rates, to have less of a financial repression. And I will say that this was mainly adopted by all Latin American countries that have liberalized the interest rate between '85 and 2000. Some of them still have some earmark in lending, some of them returned some financial repression.

But in general, I will say, after the Washington Consensus, we have gone back to relatively free financial systems, positive real rates. Banking systems are much more resilient, and banking and banking prices that were -- eventually happened, actually, the events and the frequency have gone down quite a bit over the decades.

What about competitive exchange, that will support export-led growth. That will generate more balance of payment space, and then you can force -- you can have more financing, and maybe you can have more growth from the export-led. That was the idea.

At the end of the day, I think we do have more flexible regimes in Latin America. However, a lot of them are intermediate in the sense that there is still some, but not full flexibility, in the sense that there is still some intervention.

I think I will say that the profession has evolved to allow some intervention is circumstances, certainly during volatile periods or disorderly market conditions. We have at the IMF the IPF, where you acknowledge that sometimes you need to intervene.

So I will say that that consensus led to adoption, being adopted in Latin America. And actually, the profession moved to more flexibility, but still some intervention.

Deregulate to promote competition by eliminating barriers to entry or privilege to specific firms. When you look at Latin America in general, fostering competition has been quite a rocky road in Latin America. We cannot say that the competition is there. Antitrust institutions have developed.

Sometimes it's more, and sometimes it's less. On the average, only gradually. And there are areas where contestability is still limited sometimes. So you have quite a debate on how much competition you actually have introduced in Latin America.

And finally, strike vending of property rights. I think there was an evolution of property rights. However, when you look at the various indicators of relative property rights of the region. To other region, I will say it is unimpressive and certainly quite, quite uneven.

So in order to get deep to see how are they adopted and what are the results, so we chose three countries. And as I told you they were heterogeneous in the way they were adopted and in their success.

This is the summary of what was adopted in these three countries. The dark circles is fully adopted. The gray is intermediate. And the white is poorly adopted.

So fiscal discipline, we cannot say, for example, that in Brazil was fully adopted, although there was quite a bit of evolution. But there are still debates on the dynamics and how adopt the fiscal rule.

In Chile, you not only had the fiscal discipline adopted, but as I showed you, even the numerical fiscal deficits were there. Mexico, it's great. It's great as there is fiscal responsibility, even with changing governments. That is -- the fiscal discipline is acknowledged because it's quite important.

The reallocation to priority sectors was then in all of these three countries, but not fully. Broad tax base and moderate tax rates only cheated Mexico.

As I mentioned, market-determined, positive real rates, all over the region.

We also have other developments over time that are not linked to the Washington Consensus. The '90s brought the inflation targeting regimes. A lot of Latin America, which means that you have a more flexible regime with interest rates as an instrument to control inflation in a targeting regime.

And that's the fifth point, which is the competitive exchange rate. That's a dark, a dark circle in all of them.

Trade liberalization. As I mentioned, the region was quite improved. Tariffs at 10 to 20 percent with low variance. Chile and Mexico are adopted. Brazil, still a quite closed economy.

Open to foreign direct investment, all the three countries did. There is a debate on how much this has generated the growth, as you know. I'm going to show you that that was not a good result in Latin America.

Privatization to relieve public deficit and foster efficiency, that required a debate on that. Some -- in some places it's less debatable with success. Some of the cases, there is an issue about competition and regulation.

What about deregulation? Well, gray. Property rights protection, more in Chile than in the other two.

So that's a simple table that tells you a little bit of story of what we went to and comparing the ten overacting -- overarching principles and whether they were adopted. And as you see, there is some internal change of adoption, and you will see, and what next, because there's also some heterogeneity in terms of what was a success or not, those are here.

So what is the performance after three decades -- four decades for most. Productivity growth is a disappointment. And we cannot say that that was not a goal of the Washington Consensus. It was to generate growth.

You're seeing a black circle in Chile. They generated productivity growth over the last decades. But that's an outlier in the region. And I will show you that, basically, productivity growth was disappointing in the reason.

Where we see success, inflation. It used to be three-digit inflation in the '80s and beginning of the '90s. It went now to one digit, and lately -- it went down to two digits, and lately to one digit. Of course, we are now facing a shock, an inflation shock. But that's a global shock.

So far we still see the outpouring in the system. It's not the case to say that inflation is not under control. I think that was, if you want to say this is one of the improvements and success of -- and inflation was also talked about, stabilization during the Washington Consensus.

Now there are two issues here, changing topics to income distribution. As you see, there is improvements in both public and income distribution. But here I want to caution, again, that this was not a goal, explicit goal, of the Washington Consensus. I don't think we can say that this is the result of that. There was improvement. Part of it was related to the commodity boom of over 2,000, but not all of that. More success on the poverty than in the income distribution. But there is some improvement that I want to show you.

Here's the productivity, output per hour worked relative to the United States. So look at Brazil. Really, really stagnant. Look at Chile going up. Mexico actually went down, as a declining plane. Very disappointing. And that's actually Latin America, if you look at the current Latin America, a declining trend. This is in sharp contrast to what -- Asia performance and what we heard in the previous session.

So that's really, really where we could say that the Washington Consensus did not deliver its promises.

Poverty improved. You see Brazil, Chile quite a bit, Mexico, Latin America, more than the world, not because of the Washington Consensus.

What about income distribution? Here we have a table where we looked at the income growth, per capita income growth, by the 20% poorest, the middle 60%, and the richest 20%. So when you look at the annual growth of these incomes, you will see that the growth of the poorest 20 percent in Brazil, in Chile, and Mexico, are higher than the growth of the richest 20 percent.

And part of it is just growth. But part of it is redistribution because of the programs, because of the social protection. So there is some improvement. But again, that could not be due to the Washington Consensus.

So to conclude, I will say that the Washington Consensus honestly helped Latin American economies to achieve more macroeconomic stability. And here it's not only inflation that I showed you, but also less frequent balance of payment crises, and to recover access to foreign financing in the late '80s and the '90s.

However, Latin America economic performance, I showed you the productivity growth, the development since has been disappointing over the last 30 years.

How much of this outcome can be attributed to Washington Consensus reform isn't clear. And here I'm referring not only to the success, but also to the non-success.

Some important aspects of the Washington Consensus policies have been successfully implemented, as I show you. Others have not, as I also show you. The implementation was no homogeneous. Even in the cases we looked at, some of them adopted. Brazil adopted less than Chile, for example.

Several important areas, property distribution, environment, were not part of the consensus. And the Washington Consensus should not be mechanically associated with neoliberal caricature.

So the narrative of the Washington Consensus has been mixed with a neoliberal straw man that basically is just to open at any cost and don't care about several issues. For example, in growth, which was not the case.

So it is important to separate the neoliberal narrative on the Washington Consensus. Many of the Washington Consensus policies, in our view, are needed as building blocks for a new agenda. The new agenda needs to include social, income distribution, education, security that was not there, rule of law, and also environmental issues.

The risk is that economic populism takes over and will discard the Washington Consensus policies altogether.

Thank you very much, and back to you, Alejandro.

MR. WERNER: Thank you, Ilan, for such a good presentation of your paper. Now we turn first to Jose De Gregorio for his comments, and then Laura Alfaro for her their comments. Please, Jose.

MR. GREGORIO: All right, hello. It's a pleasure to be here. Do you hear me well?

MR. GOLDFAJN: Yeah.

MR. GREGORIO: Okay. So let me just start by saying thanks for the presentation. This is a quite fascinating issue for someone that has been involved in academia and in policy and international conversations.

Just as a historical note to say that I was -- the Washington Consensus was the background paper that the great John Williamson for a conference of Latin America economics and policy, policymakers in academics.

In the -- in the Den, Institute for International Economics at Borzuch (phonetic). And it was the first conference I participated after graduation and moving to D.C., where I live for three years. And I was invited by my mentor, Rudy Donwich (phonetic), to participate in this conference. It was quite an impressive gathering of people at the premises of the institute in the Borzuch.

Now, I will admit, I will start making a point. I think that the paper by Ilan and co-authors is quite relevant, quite important. But I want to start making a sort of provocative statement about the Washington Consensus.

And I think, for the case of Chile, the Washington Consensus in the early 1990s was a blessing, was very good news, because it was the key moment when Chile was transitioning from a dictatorship to democracy, and the dictator -- pretty bad dictator -- a pretty bad -- but they did good things in economic policies.

So there was -- you couldn't say, although there was some changes, especially social policies with a return to democracy. But it was quite difficult to say, for example, that they're opening up the economy, the things that were done by Pinochet, opening up the economy, having fiscal prudence to have a good tax system, liberalizing the financial system, and many other things welcoming foreign investment, were not part of Pinochet ownership, but was part of the Washington Consensus.

And I think that that was sort of an excuse, or I would say an explanation for why some, many of the backgrounds of Pinochet's policies, a market economy, free market economy open to the world, was something that there was a broad agreement around the world. And this was the Washington Consensus.

So I think that this is -- I think that during that time was important and we had, especially at the time there was a second thing Chile experienced between 1986, 1987, and 1987, the highest period of growth of its history with a sharp reduction in poverty. Extremely successful return to democracy. Extremely successful economic policy, with a -- I would say, with a background of the Washington Consensus on many of those policies.

However over time, of course, and I say -- you can say that, and I think that even the previous discussion, the previous presentation, we had over time, the Washington Consensus, in my view was unfairly labeling.

First, and this I think is in Ilan's paper, would have to look to the Washington Consensus from the point of view of the early 1990s, not from now. And in the early 1990s, especially Latin America, the macro problem, the lack of open-market economies, the high inflation, coming out of a debt crises were the central economic problems.

So, now as we see, we said it was to narrow the focus. Of course it was narrowed, because its focus in those years were the central issues in economic policymaking. And Ilan showed us in the case of Chile, it was quite successful, in terms of achievements.

However, and I think that this is the problem, now you tell the world -- you tell me you came from -- a country that was an example, the country with one of the most complicated social unrest in later years, and all the mess with prosecutions. I think part of this to understand, without going too late in terms of Chile -- we can go later -- but it was not enough.

And I think that the Washington Consensus missed two very important things that, at that point, didn't look so important. But I think that was kind of the Achilles heel, that is created. And then what people said to discredit Washington Consensus, neoliberalites, for whatever it means, and all this kind of drama.

The issue was that, first, it didn't mention the importance of social inclusion and reduction of inequality, which is one of the most pervasive and divisive problems in the region.

And second is strengthening institutions. In several countries, privatizations were done with corruption. In the case of Chile, no, but there was some revolving doors providing new benefits to the lead. So they shortly say here that the policy is worked up by the lead, for the lead, and despite there was some, I would say, success.

So in the case of Chile, Chile -- so this policy -- and after that, without worrying about or being behind the curve, those issues, policies become discredited, policies that were implemented in a very efficient way for low middle-income countries, are not the same for a high middle-income countries. Social needs were changing. For example, the issue with Chile is not providing housing, but providing good housing. It's not providing some pensions. It's providing good pensions.

So these are the issues that we think we will face now and can help us to understand all the social unrest and all the burdens that we have in the way of economy.

At the end, just with the final note, beyond the Washington Consensus, I'm quite proud of my country. We worked through the turmoil, resulting in a better institution our way. We asked people to write the constitution, and who didn't like it, we would vote against. Game over and try again. That's the way that we have gone, and game over and try again to have something good and not buy or accept the proposal they present.

Thank you very much, and great to be here.

MS. ALFARO: Thank you to all the organizers. It would have been great to have everyone in the same room. A lot of people that I have learned to respect and admire, a lot of the people I look up to in terms of research and have also implemented a lot of the policies in our very complex countries.

I am here representing the small little country, South Central America, that were not included in the cases. And just a very quick overview, what does the paper do? Looks at the 10-point Washington list in these three case studies: Brazil, Mexico, and Chile. Implications for inflation, productivity, growth, and income inequality.

I think the paper has great timing. There is the rise of populism. And I think it is good to revisit the list. I think I might be repetitive in some of the comments, but it's good to revisit the list with a lot of -- without a lot of the ideology that was attached later to it. As the others are careful to say, the list was descriptive, was interpreted as prescriptive, and not all of the countries did them.

And I would say, even when doing, it was perhaps a measure of, "Zero-one, let's do," and not perhaps thinking about quality in how some of these things were implemented.

So I just have, perhaps, two big points in general. Are these good policies? And in particular, has our problem been implementing them, or deviating from them?

The list has been mentioned. And again, if one reads them, just a clean read, I would argue that these are good policies. Trim enough. Many things were not included there. But number two is reallocation of public expenditure into priority sectors, health, education, and investment.

Let me highlight another one -- abolition of the policies that restrict competition, provide secure property rights. Some of these things, again, in general, we didn't do. And when we did, we just worried about, "Are we spending on health, but are not -- are we spending in good health? Are we spending in good education? Are we giving education mostly to primary kids? Are we making they leave knowing math reading?"

So again, perhaps in -- there's a lot of baggage that has been attached to this list. But a simple list, reading of the list, these in general were good policies. The authors are very careful to say that the success depends on other shocks country-specific. But in general, at least for Latin America, there is a positive correlation.

Countries that did a little bit more did have better outcomes. And again, growth is not the meme, the end. But it does correlate, at least in Latin America, with reductions in poverty and reductions in income inequality.

I would argue also that if you would look at some of the health indicators, Chile has one of the highest lifespan, not only in Latin America, but in the world. It's second to Costa Rica, I would say, but we have better climate.

So again, it does correlate to some additional indicators, better scores in peace exams, better health, so on and so forth. We didn't do enough. There's more that we can do. But there is a positive correlation.

There is a nice paper by Douglas Irwin that presents additional academic evidence in this. There is a very nice paper that is being written by Carmen Reinhart's co-author, Christoph Trebesch, that looks more general at the effects of populism. And it does find that populism is extremely costly in terms of reduction in GDP and general performance.

I also have papers that have shown the benefits of foreign direct investment, liberalization, and also fiscal rules. I also have a paper with Anusha (phonetic).

Again, there is broader evidence that this, in general, good policies. Of course there's more that can be done, but I would say that the best examples are the countries we stop talking about. And we stop talking about Venezuela, we stop talking about Nicaragua, which I also heard is a very interesting example, because in the 1970s was richer than Costa Rica. So not doing the policies also is extremely costly, and we do have examples of this.

The one that perhaps people talk more about is fiscal policy. We do have countries that have learned that, to be good Keynesians in the sense that saving in good times allows us to spend in bad times, as was mentioned in the first panel. Our bad policies didn't give us infrastructure. It was terrible for our kids who had to drop out of high school. It gave us inflation, inequality, poverty, informal sectors. Again, the bad policies in Latin America didn't help us grow, develop, or reduce inequality.

And the problem is, we still have countries that have capacity to implement counter-fiscal policies, not only because of a sustainability problem, but also because institutional limitations; lack of capacity, transparency, accountability. And here I would argue it goes with corruption, interest groups. And again, this limits a lot of what we can do.

I should note, on the Brazilian cash transfer that was mentioned in the paper, it is without any doubt a great success. But I would say we need to be careful to use it as a Trojan horse, to spend more.

Poorly, it is only two percent of GDP. I have a paper that looks at the taxes and spending on Brazil. And again, Balsa Familia is a great success, and if all the regressive programs and taxes would be reallocated, Brazil would do better not only in terms of income inequality and poverty, but also in growth.

So again, the answer is not always spending more, but doing it better. In fact, in this paper, we go and look at very simple policies. But again, paying attention in quality, not just quantity; infrastructure, human capital, firm-size distributions, tax system and openness. And a blend of these measures does reduce the distance we have with productivity frontier. It would give us growth.

So again, having done a little bit more of this, for us, would have been good. So it goes back to the issue of why we're not doing more. And here we go back to political economy, if interest groups are the constraint, then it's very hard to limit -- differentiate ability to spend with capacity to spend.

At least when I was in Costa Rica, the strikes I saw, the ones that paralyzed the country, were not strikes by poor people, were strikes by public workers. And in fact, I was reading -- I was doing a presentation of our referendum for the Free Trade Agreement for the U.S. It luckily passed. It was a close call. But what's more interesting is that it was a political stand by opposition. And what is again, I think, more interesting is the hypocrites that were against it later asked to be ambassadors in the U.S., and right now are in the visiting institutions in the U.S.

So again, politics, I think, is a problem. And it's not a problem that is easy to be solved. And a lot of these policies have are being taken for political -- or you want bad mouth, for political reasons.

But just to end, development is not easy. It takes a long time. We're never done. And I think this is the problem that we sometimes face. People want a quick fix and be done. The reforms were not sufficient. We had to do more. We always have to do more. But it's hard to argue that, at the minimum level, that we're not necessary.

Thanks.

MR. WERNER: Thanks, Laura. I think we wait until Jose and Ilan are back on the screen.

I think there was, I mean, a lot of agreement in the panel. I think, just to highlight, I will complement what has been said.

I think during this period, many Latin America countries went through a very important democratic transition, which also -- I mean, generated a new political landscape, which might have complicated the political economy, which the Washington Consensus or the policies enumerated in the Washington Consensus were implemented.

Maybe some of us implementing them did not foresee the complex environment in which -- I mean, the partial implementation eventually will come out, given these interest groups, political economic constraints, et cetera.

I think, as policy makers, we also need to realize that, on the technical level, we always read and wrote the papers in which we were going to compensate the losers of a -- or at least try to do something for those sectors that were going to be affected, I mean, to control political downside coming from that, and also to get a better social outcome.

And I think on the implementation, many times we completely forego it of implementing these compensating policies. I think one point that Laura mentioned was also not fully addressed, I think, was the one in Latin America that eats antitrust and competition policies. Obviously opening up to three was a very broad competition measure. But in terms of services and non-tradable sectors, I think the degree of a market power we still have in Latin America, it's staggering, and something needs to be done.

So with that, we had some very interesting questions. I will start with two of them.

One of them is, "Are there limits or conditions where privatization should be adjusted or reconsidered?" And second, "Which policy and regulatory agenda do you think were missed in the Washington Consensus?"

I think all of you partially answered the second one, but please, we can start with Ilan, then with Laura, and go to Jose.

MR. GOLDFAJN: Thank you Alejandro and thank you people, Jose de Gregorio and Laura. Those were wonderful comments and your summary.

Let me react first to the comment by both of the discussions. I think they were very, very good. So let me just go over them. And then -- and then I may offer an answer to questions you raised, Alejandro, from the public.

So on Jose De Gregorio, one thing he mentioned that is essential, and we make it a point in the paper, is that when you evaluate the policies, it is essentially to look through the eyes of when they were designed, and what time they were designed, and what were their objectives. And it's easy to judge them from the eyes of today.

So for example, when we look at the time, those are moments of debt problems, stabilization problems, quite a bit of crisis, balance of payment crises, inflation through the roof in several countries. No -- no private financing.

And if you look at that, and that was the goal of trying to deregulate the economy, make the economies grow in what you knew, or you thought you knew will make you grow, in order to attract money, but also policy that could stabilize.

In that regard, I think we got the stabilization. Not fully, not 100 percent. Not completely because have our fliers. But in general, inflation is under control. Less balance of payment crises. Even the banking crises are more under control than in the past. We do indeed get private financing. So all of these, in general, on average, I think -- I think that it needed to happen.

However, there is also a utility of looking at it from the eyes of today. And from the eyes of today, of course, the Washington Consensus did not completely -- the development we wanted. So not looking at the income distribution of poverty or climate issues, probably also affected part of -- there is also that we also -- today we call political constraints, because the political constraints are indigenous.

I agree with Laura that some of the protests are not by the poor, or by the insiders. But some of the perception of unfairness and the perception that the governments are not working for the people, is there in several of our countries. And I think that's something that I think we missed from the beginning.

Jose De Gregorio started a provocative statement, saying about the blessing that he believes was the Washington Consensus. And I will say, in the case of Chile, was probably the right timing. But we cannot forget the phase one is that Chile is not the rule is Latin America, is more of the exception. And the exception, especially in terms of wealth.

When you look at the average productivity growth, in Latin America, is it a small -- is it a small performance? We have lost decades.

And Chile is probably one of the few countries in the region that actually grew faster route than the rest of not only the region, but also the rest of the world. And so I think we cannot use Chile as a complete example for the region.

Second, and as I mentioned before, even though if we look at the eyes of -- not look at it in the eyes of the '80s and '90s, it's still the case that things were missing. And as people mentioned, we've seen the protests in Chile. We've seen that things are missing. The perception that the state is not giving the institution enough there, it's still that one and it needs to be that one.

And I'm saying it because, when we look at the agenda for the future, it is quite important to first not lose sight of how positive some ese policies were, so we cannot throw the baby with the water because we're going to enter into economic properties, and with an agenda that will destabilize the region.

However, we need to look at what needs to be done in the future, and the several areas that people are demanding. In addition to what we just mentioned, we talk about security. We talk about corruption. We talk about green -- green energy, in addition to what we just mentioned, which is income distribution, poverty, and other, and some perception of fairness through the competition.

Laura made a few points that I think are quite important. I don't think the paper -- when the paper chose the three case studies, we do not choose a negative case, which is always interesting to do because the negative case also teaches us, because all the cases that Laura mentioned, I would say it's a very negative correlation with what Washington Consensus' principles are.

So even though we cannot exactly say that those are the cases, but there is -- you'll have the suspicion and you do need some of these policies for stabilization.

One other thing which is quite important, and both Laura and Jose mentioned is, we need to get out of these straw men of the Washington Consensus, which is neoliberal straw man where, when you look at what actually are the principles, you have competition, you have rule of law, you have reallocation, you have expenditures.

So it was not only opening to trade, opening to capital markets. It was also some of the issues that, today, people demand as necessary for the new agenda in development.

Getting into the two questions that Alejandro brought from the public; "Is there a limit for privatization?"

I think -- and people mentioned -- what I mentioned is that, in Chile, we had quite a bit of privatization, but they are being debated whether, whether the privatization led to more competition, to better serve the people.

In the case of my country, Brazil, I will say privatization did a very good job in general. What I also recognize that just privatization is not enough. It's not a zero-one gain, as the panel mentioned. It's an issue of better, doing things better.

So privatization can include -- includes competition and includes efficiency, but it's not a done deal just to do it and forget about it. It needs to come with resolution and the state helping the privatization.

Following on the agenda, "What is the agenda?" We just talked, so I'm not going to repeat myself. We mentioned all the issues that were missing and that we need for the future. Thank you.

MR. WERNER: Thanks, Ilan. Laura?

MS. ALFARO: I -- just a comment to second what Ilan said on privatization, and then I want to go back to the list on something. Again, I think a big mistake is this movement to the zero-ones. Life is complicated, and let's stay in the beautiful world of the gray.

So privatization is not trying to be private just for the sake, although, again, there might be people who wanted to do that. The objective first was to relieve some of the fiscal burden.

Sadly, some countries, what they did is just they took the sails from the asset that was bought, and they just spend that, and they didn't reduce that.

The other was an objective of trying to have more competition. But again, if the state is capture, it's very hard to do this. And so countries that have less capture would probably be better.

Costa Rica had an interesting way of tackling this, because again, there is -- being a democratic country, they also chose different ways. Costa Rica would never privatize anything. What we did is we open up to private.

So we have public banks and private banks. We have public telephones and private telephones. And again, that was a political economic way of solving that in an attempt to create more competition. It still has some issues. I'm not going to say -- but again, I do think countries can find a way to do an in-between, depending on their political economy. But the objective at the end is trying to give better services and provide access to most of the people.

And with that, let me go back to the list. And I have to say, again, after Covid, which was a time where, sadly, most of Latin America closed schools, we're going to have a big problem. That is, for two years our kids didn't go to schools, and we were already growing or very behind in some of the peace exams.

Here, we never did that. We never focused on quality education for all. So that is something. We -- we're just not done. Even in my country, with disproportionate spend on higher education, and very little on probably primary education.

So going back to the list, and perhaps taking it -- which is just what they were, it sometimes might be good. We need to focus on education, health, and infrastructure, but quality education, health, and infrastructure. And if we did that, my hunch is that, overall, we all would have been better.

MR. WERNER: Thanks, Laura. Jose?

MR. GREGORIO: Yeah. Thank you.

Regarding the two questions and some final comment, I have no more time except --

First, the conditions for privatization, privatization has to become one of the main straw men of this discussion on neoliberalism and all the -- all the words of improvisation.

Now, I understand that it depends where to start. Latin America started from a lot of inefficient public enterprise that needs a lot of investment.

And if the state cannot run a small company, running a company, doing a lot of investment, is quite complicated. So if you tell me I think that a big state with a lot of firms is pretty inefficient and makes a lot of sense. Many public utilities are with private sector.

Now, would the transport be public or private? Until we the long discussion, because it's fully private and there was some collapse, and we had rather a lot of work. The metro is Chile is public and nobody thinks about privatizing. Or some key industry, Petrobras, Pemex, until political.

So that's fine. So they sent the most important thing again, and this was missed by the Washington Consensus so going to the missing pile, is institutions. And one of those institutions are governors of public enterprises, so they don't become a political, you know, price. When you win an election, but you are the, but they are the service of the country.

I think that also, Laura mentioned antitrust policy. And then when you ask Laura what was missing, she has a long list, because it was not the focus on the Washington Consensus. So to say that the Washington Consensus is a subset of important things to do.

Even the Washington Consensus was not even -- they were fully realization of capital markets despite, to the international financial opening, despite many people putting it on fence of the Washington Consensus.

So I want us to be -- it's very recent on macro policies. For the time, they forgot about reforms, corruption, avoiding corruption, institutions, antitrust, many social policies, where we need to go a little bit to the details, what we should prioritize, what to do with expenditure in RD.

So there are many, many things that, of course, the Washington Consensus was not able to do everything. Now, this is in the world of slogans and Twitter. Of course, Washington Consensus has been also in an intellectually dishonest way, also discredit by great economists with more political intentions than real intellectual drive.

MR. WERNER: Thanks Laura, Jose, Ilan, I think, for a great discussion. I think -- I mean, obviously, yes, as economists, former policy makers, et cetera, we all agree on the issue of not being a black-and-white decision, and how we -- and I think that the crux of the issues how to complement, given the results we saw. And you all agree, in terms of the policies that were implemented, how those could be complemented to generate a faster and more inclusive growth process, but also one that it's politically more sustainable.

And in that sense, some of the issues are -- I mean, Laura and Ilan were mentioning this. Maybe it's not the poor who were protesting. But if the lower-middle class is protesting, and that can generate a political backlash, maybe we, us policymakers should see how we underestimate that, even if we create a second-best policy.

But if politically we cannot address it, we need to have maybe a technical solution to try to, at least ameliorate those issues. So I do think, and at least I'm talking in terms of what we did in Mexico, in my country.

I think we were coming from a situation in which maybe our capacity to implement policies were -- was pretty large. And then we move into a more democratic system in which it became much harder. And maybe we were not sufficiently flexible to adapt to that, and we miss key issues in terms of its implementation.

And I think we as policy makers in international institutions, et cetera, we need to think a little bit more about the political economy of the environment in which these policies are being implemented.

And with that, let me thank you again the three of you, the organizers, for a great conference. Thanks.

MR. GREGORIO: Thank you. It was great seeing you.

(Recess)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2024