SPEECHES & PAPERS

What Washington Means by Policy Reform

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No statement about how to deal with the debt crisis in Latin America would be complete without a call for the debtors to fulfill their part of the proposed bargain by ″setting their houses in order,″ ″undertaking policy reforms,″ or ″submitting to strong conditionality.″ The question posed in this paper is what such phrases mean, and especially what they are generally interpreted as meaning in Washington. Thus the paper aims to set out what would be regarded in Washington as constituting a desirable set of economic policy reforms. An important purpose in doing this is to establish a baseline against which to measure the extent to which various countries have implemented the reforms being urged on them.

The paper identifies and discusses 10 policy instruments about whose proper deployment Washington can muster a reasonable degree of consensus. In each case an attempt is made to suggest the breadth of the consensus, and in some cases I suggest ways in which I would wish to see the consensus view modified. The paper is intended to elicit comment on both the extent to which the views identified do indeed command a consensus and on whether they deserve to command it. It is hoped that the country studies to be guided by this background paper will comment on the extent to which the Washington consensus is shared in the country in question, as well as on the extent to which that consensus has been implemented and the results of its implementation (or nonimplementation).

The Washington of this paper is both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks. The Institute for International Economics made a contribution to codifying and propagating several aspects of the Washington consensus in its publication *Toward Renewed Economic Growth in Latin America* (Balassa et al. 1986). Washington does not, of course, always practice what it preaches to foreigners.

The 10 topics around which the paper is organized deal with *policy instruments* rather than objectives or outcomes. They are economic policy instruments that I perceive "Washington" to think important, as well as on which some consensus exists. It is generally assumed, at least in technocratic Washington, that the standard economic objectives of growth, low inflation, a viable balance of payments, and an equitable income distribution should determine the disposition of such policy instruments.

There is at least some awareness of the need to take into account the impact that some of the policy instruments in question can have on the extent of corruption. Corruption is perceived to be pervasive in Latin America and a major cause of the region's poor performance in terms of both low growth and inegalitarian income distribution. These implications will be mentioned below where they seem to be important.

Washington certainly has a number of other concerns in its relationship with its Latin neighbors (and, for that matter, with other countries) besides furthering their economic well-being. These include the promotion of democracy and human rights, suppression of the drug trade, preservation of the environment, and control of population growth. For better or worse, however, these broader objectives play little role in determining Washington's attitude toward the economic policies it urges on Latin America. Limited sums of money may be offered to countries in return for specific acts to combat drugs, to save tropical forests, or (at least prior to the Reagan administration) to promote birth control, and sanctions may occasionally be imposed in support of democracy or human rights, but there is little perception that the policies discussed below have important implications for any of those objectives. Political Washington is also, of course, concerned about the strategic and commercial interests of the United States, but the general belief is that these are best furthered by prosperity in the Latin countries. The most obvious possible exception to this perceived harmony of interests concerns the US national interest in continued receipt of debt service from Latin America. Some (but not all) believe this consideration to have been important in motivating Washington′s support for policies of austerity in Latin America during the 1980s.

FISCAL DEFICITS

Washington believes in fiscal discipline. Congress enacted Gramm-Rudman-Hollings with a view to restoring a balanced budget by 1993. Presidential candidates deplore budget deficits before and after being elected. The International Monetary Fund (IMF) has long made the restoration of fiscal discipline a central element of the high-conditionality programs it negotiates with its members that wish to borrow. Among right-wing think tanks there may be a few believers in Ricardian equivalence-the notion that individuals adjust their saving behavior to anticipate future taxation, so that whether public expenditure is financed by taxation or bonds has no impact on aggregate demand-who are prepared to deny the danger of large fiscal deficits, but they clearly stand outside the Washington consensus. Left-wing believers in ″Keynesian″ stimulation via large budget deficits are almost an extinct species.

Differences of view exist, however, as to whether fiscal discipline need necessarily imply a balanced budget. One view is that a deficit is acceptable as long as it does not result in the debt-GNP ratio rising. An even more relaxed criterion would net off that part of the increased debt that has a counterpart in productive public capital formation and simply seek to prevent an increase in the net liabilities of the public sector relative to GNP. Another modification, which I find persuasive although much of Washington regards it as too "Keynesian" to endorse explicitly, argues that a balanced budget (or at least a nonincreasing debt-GNP ratio) should be a minimal medium-run norm, but that short-run deficits and surpluses around that norm should be welcomed insofar as they contribute to macroeconomic stabilization. (Note that Gramm-Rudman-Hollings is automatically suspended if the US economy goes into recession.) A variant of that view, held in some quarters where "Keynesian" is regarded as a term of abuse, is that progress toward the medium-term goal of a balanced budget should be sufficiently cautious to avoid the risk of precipitating a recession.

The budget deficit has traditionally been measured in nominal terms, as the excess of government expenditures over receipts. In 1982 Brazil argued with the IMF that this way of measuring the deficit is seriously misleading in a high-inflation country, where most of the nominal interest payments on government debt are really accelerated amortization of principal. The IMF has accepted this argument (Tanzi 1989), if initially with some reluctance, and hence it sometimes now pays attention to the "operational deficit," which includes in expenditure only the real component of interest paid on government debt. (Political Washington has not yet discovered this sensible innovation, which thus remains to be exploited as a means of relaxing the Gramm-Rudman-Hollings constraints when these threaten to bite.) Indeed, Tanzi (1989) also indicates that in formulating programs the Fund has increasingly been using the "primary deficit," which excludes all interest payments from the deficit, on the ground that this includes only items that are in principle directly controllable by the authorities. (That goes too far for my taste, since real interest payments certainly have implications for aggregate demand and the evolution of the real debt of the public sector.)

The exaggeration of budget deficits by inclusion of the inflationary component of interest on government debt is not the only inadequacy of public-sector accounting. Most of the other questionable practices seem to involve understatement of the true deficit:

Contingent expenditures, such as the guarantees given to savings and loan institutions in the United States, are rarely included in reported budget outlays.

Interest subsidies and some other expenditures are sometimes provided by the central bank rather than from the budget.

Privatization proceeds are sometimes recorded as revenues rather than as a means of financing a fiscal deficit.

The buildup of future liabilities of the social security system is not included in budget outlays.

Despite the significant differences in the interpretation of fiscal discipline, I would maintain that there is very broad agreement in Washington that large and sustained fiscal deficits are a primary source of macroeconomic dislocation in the forms of inflation, payments deficits, and capital flight. They result not from any rational calculation of expected economic benefits, but from a lack of the political courage or honesty to match public expenditures and the resources available to finance them. Unless the excess is being used to finance productive infrastructure investment, an operational budget deficit in excess of around 1 to 2 percent of GNP[1] is *prima facie* evidence of policy failure. Moreover, a smaller deficit, or even a surplus, is not necessarily evidence of fiscal discipline: its adequacy needs to be examined in the light of the strength of demand and the availability of private savings.

PUBLIC EXPENDITURE PRIORITIES

When a fiscal deficit needs to be cut, a choice arises as to whether this should be accomplished by increasing revenues or by reducing expenditures. One of the legacies of the Reagan administration and its "supply-side" allies has been to create a preference in Washington for reducing expenditures rather than increasing tax revenues, although it is not clear that this preference is very strong outside of right-wing political circles (including the right-wing think tanks).

Much stronger views are held, especially in the international institutions, about the composition of public expenditures. Military expenditures are sometimes privately deplored, but in general they are regarded as the ultimate prerogative of sovereign governments and accordingly off limits to international technocrats. Expenditures on public administration are recognized as necessary, although sometimes they are believed to be unnecessarily bloated, especially where corruption is out of hand. But there are three major expenditure categories on which views are strongly held: subsidies, education and health, and public investment.

Subsidies, especially indiscriminate subsidies (including subsidies to cover the losses of state enterprises) are regarded as prime candidates for reduction or preferably elimination. Everyone has horror stories about countries where subsidized gasoline is cheaper than drinking water, or where subsidized bread is so cheap that it is fed to pigs, or where telephone calls cost a cent or so because someone forgot (or lacked the courage) to raise prices to keep pace with inflation, or where subsidized "agricultural credit" is designed to buy the support of powerful landowners, who promptly recycle the funds to buy government paper. The result is not just a drain on the budget but also much waste and resource misallocation, with little reason to expect any offset from systematically favorable effects on income distribution, at least where indiscriminate subsidies are concerned.

Education and health, in contrast, are regarded as quintessentially proper objects of government expenditure (Balassa et al. 1986, chapter 4). They have the character of investment (in human capital) as well as consumption. Moreover, they tend to help the disadvantaged. This is an objective that fell under a cloud in the early years of the Reagan administration, but that has recovered its standing of the 1970s ("basic needs") in the late 1980s, aided by the prodding of UNICEF (Cornia, Jolly, and Stewart 1987).

Thus, the Managing Director of the IMF, Michel Camdessus, has declared the Fund to have a concern about the impact of its programs on the poor, and more recently Barber Conable, President of the World Bank, has reasserted the Bank's commitment to seeking to end poverty.[2]

Just how much help expenditures on education and health in fact provide to the disadvantaged depends on their composition as well as their level. Primary education is vastly more relevant than university education, and primary health care (especially preventive treatment) more beneficial to the poor than hospitals in the capital city stuffed with all the latest high-tech medical gadgets. This is not to say that there is no need for universities or state-of-the-art hospitals: developing countries need to train and retain an educated elite as well as to raise the standards of the masses and the poorest. But it is to assert that many in Washington believe that expenditures need to be redirected toward education and health in general, and most especially in a way that will benefit the disadvantaged.

The other area of public expenditure that Washington regards as productive is public infrastructure investment. There is of course a view that the public sector tends to be too large (see the section on privatization below). However, that view coexists with the view that spending on infrastructure that is properly within the public sector needs to be large (and also that an industry should not be starved of investment just because it is, however inadvisedly, within the public sector).

Policy reform with regard to public expenditure is thus perceived to consist of switching expenditure from subsidies toward education and health (especially to benefit the disadvantaged) and infrastructure investment. I would add that, for my taste, the hostility toward subsidies tends to be too general. I fully sympathize with the hostility toward indiscriminate subsidies, but I also believe that there are circumstances in which carefully targeted subsidies can be a useful instrument. Thus, my own test of a country's policies would not be whether it had abolished all subsidies, but whether it could provide a convincing explicit justification for those that remain in terms of improving either resource allocation or income distribution.

TAX REFORM

Increased tax revenues are the alternative to decreased public expenditures as a remedy for a fiscal deficit. Most of political Washington regards them as an inferior alternative. Much of technocratic Washington (with the exception of the right-wing think tanks) finds political Washington's aversion to tax increases irresponsible and incomprehensible.

Despite this contrast in attitudes toward the merits of increasing tax revenue, there is a very wide consensus about the most desirable method of raising whatever level of tax revenue is judged to be needed. The principle is that the tax base should be broad and marginal tax rates should be moderate. This principle, the basis of the 1986 reform of the US income tax, was promoted with equal enthusiasm by the late Joseph A. Pechman of the Brookings Institution and Senator Bill Bradley (D-NJ) and by the "supply-siders" in Congress and the right-wing think tanks.

A particular issue that arises in the Latin American context is whether an attempt should be made to include within the tax base interest income on assets held abroad ("flight capital"). By itself a single country's law subjecting such income to taxation may not have much impact because of the problem of enforcement, but a country is not even in a position to start discussions on enforcement with haven countries until it has legislated to impose taxes on the interest from flight capital (Lessard and Williamson 1987). Achieving effective taxation of the income from flight capital is bound to take a long time, but it would be interesting to know whether any countries have embarked on the effort.

INTEREST RATES

Two general principles about the level of interest rates would seem to command considerable support in Washington. One is that interest rates should be market-determined. The objective of this is to avoid the resource misallocation that results from bureaucrats rationing credit according to arbitrary criteria (Polak 1989). The other principle is that real interest rates should be positive, so as to discourage capital flight and, according to some, increase savings. Many, including myself, would qualify this statement to say that interest rates should be positive but moderate, so as to promote productive investment and avoid the threat of an explosion in government debt.

The question obviously arises as to whether these two principles are mutually consistent. Under noncrisis conditions, I see little reason to anticipate a contradiction; one expects market-determined interest rates to be positive but moderate in real terms, although high international interest rates may make it difficult to hold rates quite as moderate as might be desired. Under the sort of crisis conditions that much of Latin America has experienced for most of the 1980s, however, it is all too easy to believe that market-determined interest rates may be extremely high. it is then of interest to examine whether either principle has been followed or what sort of compromise between the two may have been achieved. In particular, it is still of interest to examine whether the credit market is segmented and channeling low-cost funds to ″priority″ sectors and, if so, what those sectors are and whether their selection has any economic rationale. The suspicion is that such segmented credit markets provide a prime environment for corruption to flourish.

THE EXCHANGE RATE

Like interest rates, exchange rates may be determined by market forces, or their appropriateness may be judged on the basis of whether their level seems consistent with macroeconomic objectives. Although there is some support in Washington for regarding the former principle as the more important (a view held in particular by those who deny the possibility of estimating equilibrium exchange rates), the dominant view is that achieving a "competitive" exchange rate is more important than how the rate is determined. In particular, there is relatively little support for the notion that liberalization of international capital flows is a priority objective for a country that should be a capital importer and ought to be retaining its own savings for domestic investment.

The test of whether an exchange rate is appropriate is whether it is consistent in the medium run with macroeconomic objectives (as in my concept of the "fundamental equilibrium exchange rate," or FEER; see Williamson 1985). In the case of a developing country, the real exchange rate needs to be sufficiently competitive to promote a rate of export growth that will allow the economy to grow at the maximum rate permitted by its supply-side potential, while keeping the current account deficit to a size that can be financed on a sustainable basis. The exchange rate should not be more competitive than that, because that would produce unnecessary inflationary pressures and also limit the resources available for domestic investment, and hence curb the growth of supply-side potential.

Growth of nontraditional exports is dependent not just on a competitive exchange rate at a particular point in time, but also on private-sector confidence that the rate will remain sufficiently competitive in the future to justify investment in potential export industries (for recent evidence, see Paredes 1989). Thus, it is important to assess the stability of the real exchange rate as well as its level.

A competitive real exchange rate is the first essential element of an "outward-oriented" economic policy, where the balance of payments constraint is overcome primarily by export growth rather than by import substitution. There is a very strongly held conviction in Washington that outward orientation and expanding exports-essentially growth in *nontraditional exports*--are necessary for Latin American recovery (see, for example, Balassa et al. 1986).

TRADE POLICY

The second element of an outward-oriented economic policy is import liberalization. Access to imports of intermediate inputs at competitive prices is regarded as important to export promotion, while a policy of protecting domestic industries against foreign competition is viewed as creating costly distortions that end up penalizing exports and impoverishing the domestic economy. The ideal is a situation in which the domestic resource cost of generating or saving a unit of foreign exchange is equalized between and among export and import-competing industries.

The worst form of protection is considered to be import licensing, with its massive potential for creating opportunities for corruption. To the extent that there has to be protection, let it be provided by tariffs, so that at least the public purse gets the rents. And keep distortions to a minimum by limiting tariff dispersion and exempting from tariffs imports of intermediate goods needed to produce exports.

The free trade ideal is generally (although perhaps not universally) conceded to be subject to two qualifications. The first concerns infant industries, which may merit substantial but strictly temporary protection. Furthermore, a moderate general tariff (in the range of 10 percent to 20 percent, with little dispersion) might be accepted as a mechanism to provide a bias toward diversifying the industrial base without threatening serious costs. The second qualification concerns timing. A highly protected economy is not expected to dismantle all protection overnight. Views differ, however, on whether import liberalization should proceed according to a predetermined timetable (the World Bank view, embodied in many structural adjustment loans) or whether the speed of liberalization should vary endogenously, depending on how much the state of the balance of payments can tolerate (my own view, based on recollection of how Europe liberalized successfully in the 1950s).

FOREIGN DIRECT INVESTMENT

As noted above, liberalization of foreign financial flows is not regarded as a high priority. In contrast, a restrictive attitude limiting the entry of foreign direct investment (FDI) is regarded as foolish. Such investment can bring needed capital, skills, and know-how, either producing goods needed for the domestic market[3] or contributing new exports. The main motivation for restricting FDI is economic nationalism, which Washington disapproves of, at least when practiced by countries other than the United States.

FDI can be promoted by debt-equity swaps. Parts of Washington, perhaps most notably the US Treasury, the Institute of International Finance, and the International Finance Corporation, are strongly in favor of debtor countries facilitating debt-equity swaps, on the argument that this can simultaneously further the twin objectives of promoting FDI and reducing debt. Other parts of Washington, notably the IMF, are much more skeptical. They question whether FDI should be subsidized; they ask whether the subsidized investment will be additional; they argue that, if it is not, the debtor loses by having its foreign debt reduced rather than gaining free foreign exchange; and above all they worry about the inflationary implications of adding to domestic monetary expansion.

PRIVATIZATION

Debt-equity swaps involve no monetary pressure when the equity purchased by the foreign investor is bought from the government, in the course of an enterprise being privatized. This is one attraction seen in privatization. More generally, privatization may help relieve the pressure on the government budget, both in the short run by the revenue produced by the sale of the enterprise and in the longer run inasmuch as investment need no longer be financed by the government.

However, the main rationale for privatization is the belief that private industry is managed more efficiently than state enterprises, because of the more direct incentives faced by a manager who either has a direct personal stake in the profits of an enterprise or else is accountable to those who do. At the very least, the threat of bankruptcy places a floor under the inefficiency of private enterprises, whereas many state enterprises seem to have unlimited access to subsidies. This belief in the superior efficiency of the private sector has long been an article of faith in Washington (though perhaps not held quite as fervently as in the rest of the United States), but it was only with the enunciation of the Baker Plan in 1985 that it became official US policy to promote foreign privatization. The IMF and the World Bank have duly encouraged privatization in Latin America and elsewhere since.

The lack of a strong indigenous private sector is one reason that has motivated some countries to promote state enterprises. This is again a nationalistic motivation and hence commands little respect in Washington.

My own view is that privatization can be very constructive where it results in increased competition, and useful where it eases fiscal pressures, but I am not persuaded that public service is always inferior to private acquisitiveness as a motivating force. Under certain circumstances, such as where marginal costs are less than average costs (for example, in public transport) or in the presence of environmental spillovers too complex to be easily compensated by regulation (for example, in the case of water supply), I continue to believe public ownership to be preferable to private enterprise. But this view is not typical of Washington.

DEREGULATION

Another way of promoting competition is by deregulation. This was initiated within the United States by the Carter administration and carried forward by the Reagan administration. It is generally judged to have been successful within the United States, and it is generally assumed that it could bring similar benefits to other countries.

The potential payoff from deregulation would seem to be much greater in Latin America, to judge from the assessment in Balassa et al. (1986, 130):

> Most of the larger Latin American countries are among the world's most regulated market economies, at least on paper. Among the most important economic regulatory mechanisms are controls on the establishment of firms and on new investments, restrictions on inflows of foreign investment and outflows of profit remittance, price controls, import barriers, discriminatory credit allocation, high corporate income tax rates combined with discretionary tax-reduction mechanisms, as well as limits on firing of employees.... In a number of Latin American countries, the web of regulation is administered by underpaid administrators. The potential for corruption is therefore great.
>
> Productive activity may be regulated by legislation, by government decrees, and case-by-case decision making. This latter practice is widespread and pernicious in Latin America as it creates considerable uncertainty and provides opportunities for corruption. It also discriminates against small and medium-sized businesses which, although important creators of employment, seldom have access to the higher reaches of the bureaucracy.

PROPERTY RIGHTS

In the United States property rights are so well entrenched that their fundamental importance for the satisfactory operation of the capitalist system is easily overlooked. I suspect, however, that when Washington brings itself to think about the subject, there is general acceptance that property rights do indeed matter. There is also a general perception that property rights are highly insecure in Latin America (see, for example, Balassa et al. 1986, chapter 4).

WASHINGTON'S PRACTICE

Washington does not always practice what it preaches, as a moment's reflection on the most embarrassing subject mentioned above-corruption-will surely reveal. This paper was, after all, written during the weeks when a massive scandal at the US Department of Housing and Urban Development came to light-a case involving fraud and irresponsibility on a scale large enough to erode the credibility of Washington's preaching.

That would be true, at least, if Washington's advice were a moral admonition to purity. But that is not in fact the way it is generally perceived. Rather, the advice is intended to further the self-interest of the countries to whom it is directed (although not necessarily with a weighting of the interests of the constituent classes identical to that of the ruling elite in those countries). The fact that the United States also suffers from fraud and corruption does not make those practices any less detrimental in Latin countries, especially to those excluded from the elite. On the contrary, the greater pervasiveness of corruption in many Latin countries suggests that the damage it does is much greater.

Washington's record is likewise imperfect in other areas discussed above. On the first criterion, that of controlling the fiscal deficit, the US record of the 1980s is poor. It is true that the federal deficit has been failing since 1985, especially as a proportion of GNP, and that the operational deficit is now only some I percent of GNP, which is within the range consistent with continued solvency of the public sector. However, the fiscal deficit remains too large for macroeconomic balance, given the low private saving rate in the United States. The excessively high fiscal deficit results in the maintenance of high real interest rates and an unsustainably large current account deficit, with consequential burdens on debtors, discouragement of investment, nurturing of protectionist sentiment, and the continuing threat of a "hard landing."

The other areas where Washington's practice leaves much to be desired are exchange rate policy, where the ill effects of the dollar's vast overvaluation of the mid-1980s still linger even though the misalignment itself has been largely corrected, and trade policy, which has made discouraging lurches toward protection despite all the pledges to the contrary. in most of the microeconomic areas-notably tax reform, FDI (so far, at least), deregulation, and property rights-Washington's actions are consistent with its rhetoric.

CONCLUDING REMARKS

The economic policies that Washington urges on the rest of the world may be summarized as prudent macroeconomic policies, outward orientation, and free-market capitalism. It practices the last of these with more consistency than the first two, but that should not be taken to imply that they are less important. Most of technocratic Washington believes that the failure to practice what is preached hurts the United States as well as the rest of the world.

It is not at all clear that the policy reforms currently sought by Washington adequately address all of the critical current problems of Latin America. Consider, for example, the transitional problems of inflation stabilization. Fiscal discipline is certainly a precondition for mastering inflation. But some would argue that it needs to be supplemented by price and wage freezes and a fixed exchange rate (on the Mexican model), whereas others might well wish to add price liberalization to the list of policy initiatives that Washington should be urging on Latin America. There is no consensus view on this topic, even though some policy on price control (perhaps differing by country) may be critical to successful stabilization.

As a second example, Dornbusch (1989a) has recently raised the question of whether the Washington agenda described above can be relied on to restore growth once stabilization has been achieved. He points to the disappointing experiences of Bolivia and Mexico, where determined and effective stabilization has not yet resulted in a resumption of growth. If he is right in his contention that entrepreneurs may adopt a wait-and-see policy after stabilization rather than promptly committing themselves to the risks involved in new investment, the important question arises as to what must be added to Washington's policy advice in order to restore growth.

A third important issue concerns capital flight. Fiscal discipline, positive real interest rates, a competitive exchange rate, and more secure property rights are all important for reversing capital flight. But it is doubtful whether all those reforms together would lead to a prompt return of flight capital. Elimination of the current tax incentive to keep money abroad would surely help too (Lessard and Williamson 1987), but this is certainly not a policy on which Washington has yet reached a consensus, nor is it clear that adding it would be enough to do the trick.[4]

Even though the Washington consensus may not be sufficient to resolve all the major Latin problems, it is surely of interest to ask:

> Is the consensus shared in Latin America?
>
> Have the recommended policies been implemented in Latin America?
>
> What results have been achieved where the recommended policies have been implemented?

Those are the questions that the country studies are being asked to address. Answering them will at least help to clear the ground for examining what additional policies may be needed to limit the transitional costs of inflation stabilization, to restore growth, and to reverse capital flight.

One final reflection: A striking fact about the list of policies on which Washington does have a collective view is that they all stem from classical mainstream economic theory, at least if one is allowed to count Keynes as a classic by now. None of the ideas spawned by the development literature-such as the big push, balanced or unbalanced growth, surplus labor, or even the two-gap model-plays any essential role in motivating the Washington consensus (although I would fortify my preference for varying the pace of import liberalization depending on the availability of foreign exchange by appeal to the two-gap model). This raises the question as to whether Washington is correct in its implicit dismissal of the development literature as a diversion from the harsh realities of the dismal science.[5] Or is the Washington consensus, or my interpretation of it, missing something?

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NOTES

1. This figure assumes a desire to stabilize the debt-GNP ratio, D/Y, at no more than 0.4. Assume a real growth rate, $?Y/Y$, of 0.04. Then $?D/D - ?Y/Y \leq 0$ implies $?D/Y \leq Y/Y \times D/Y = 0.04 \times 0.4 = 0.016$.

2. See, for example, Camdessus′ address to the United Nations Economic and Social Council in Geneva on 26 June 1987 (*IMF Survey*, 29 June 1987) and the interview with Conable in Istanbul on 19 May 1989.

3. An exception to the case for welcoming FDI can arise if the domestic market in question is heavily protected, when the growth produced by foreign investment can be immiserizing: see Brecher and Díaz Alejandro (1977).

4. Some might want to add the debt issue as a fourth topic on which it is not clear that the Washington agenda suffices to resolve the current problem, but this seems to me unfair. The Brady Plan is based on the premise that official help in achieving debt reduction should be given to those countries that have ″put their houses in order,″ which implies that the latter alone is not expected to achieve a resolution of the debt problem.

5. Ironically, Washington seems to have reached this position just as Chicago theorists have rediscovered the old ideas of externalities that underlay the development literature: see Shleifer (1989) for a survey of the new literature on the theory of development.