

# Redefining the Washington Consensus

An interview with  
Joseph Stiglitz

Christopher R. Williams

Joseph E. Stiglitz achieved global notoriety when he spoke out against the economics of what is called the Washington Consensus. He held senior economic positions in Washington, where the US administration and the international financial agencies promoted a version of market economics that provoked outrage in the streets of capitals around the world.

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Dr. Stiglitz has now returned to teaching at Columbia University, but his diagnosis of why indebted countries are failing to develop commands respect for the honesty with which he challenges the foundation rules of the capitalist economy. And as Christopher Williams discovered when he interviewed the professor on October 8, 2002, challenging questions about those rules, and how they were established, continued to preoccupy him.

I DIDN'T KNOW Joseph E. Stiglitz, except by reputation as a world-famous economist, but I'd been invited to a cocktail party at his apartment near Columbia University on the upper West Side of Manhattan. I was running late that night, but I didn't want to miss a chance to meet this celebrated academic, winner of the 2001 Nobel Prize in economic science, former head of President Clinton's Council of Economic Advisers, former Chief Economist of the World Bank whose declared "bad boy" he became for having resigned in protest over its policies, and author of a recent best-seller in Europe and the United States, *Globalization and its Discontents*.

I ran across the street and bounded up the stairs into the lobby of his building. Rushing to clamber into a crowded elevator whose door was about to close, I side-stepped the elevator man and said, "Joe Stiglitz, please."

While we rose, the elevator man turned and fixed his eyes on me, saying, "You know him?"

"Of course, he's giving the reception," I said, bluffing.

The elevator man grunted and looked around. When he opened the door to allow people out, I could see him smirking as the well-publicised face of Joe Stiglitz emerged from the shadows. Professor Stiglitz had been in the back of the elevator. He was full of smiles. At least it was smiling at me when he got off the elevator. I could see that his olive skin was darker under eyes that, although weary-looking, lit up his face as he greeted me. Bright and cheery, they reflected optimism. Middle-aged and stocky, he was a friendly fellow who sported a mustache and beard that were greying below round, wire-rimmed spectacles.

The group that had gathered in his home was "Citizens Against the Arms Race." They had been anticipating hearing Professor Stiglitz for some time that evening. (He was running late, too.) His eager audience continued to sip drinks and talk, waiting for him to begin. The noise level dropped suddenly when they saw him enter the room and position himself at one end to speak.

That night, he commented on land reform, saying that many efforts at it had failed, though not all. He spoke about Zimbabwe's inequality of land distribution, how it had continued unchanged since colonial times, and how it was in part responsible for the civil strife now occurring in that country. He also said that social reform could not be accomplished by merely redistributing land, that other things are necessary to make it succeed, such as provision of capital and access to technology, and that these things cannot be overlooked in land reform efforts. He also stated there have been development strategies conducive to social stability in African and South American countries that involve land reform, but that they were not on the American

development "agenda" because such strategies touch on fundamental issues of political structure.

These remarks were in line with views he'd expressed in *Globalization and its Discontents*, in which he'd written, "Land reform, done properly, peacefully and legally, ensuring that workers get not only land but access to credit and the extension services that reach them about new seeds and planting techniques, could provide an enormous boost to output" (p.81). However, the book cautioned against expecting that land reform measures might be accomplished easily. Nevertheless, he pursued the theme with an admonition, stating, "If these institutions were really concerned about growth and poverty alleviation, they would have paid considerable attention to the issue: land reform preceded several of the most successful instances of development, such as those in Korea and Taiwan" (p.81).

I wanted very much to pursue these themes with him myself, and Professor Stiglitz was gracious enough to give me an interview at his office in Uris Hall at Columbia University where last year he was made Professor of Economics.

His suite of offices was modern, but it was clear from the stacks of files and banker's boxes that lined the path between the reception area and his private office that Professor Stiglitz was still moving into his new quarters. They were also very busy. Three graduate students were working away at computer terminals in his hallway, and two associate professors were trying to arrange appointments with his secretary, who was taking a telephone call with two other lines on hold. Her desk was crammed between filing cabinets with books piled on top and more cardboard boxes. She was energetically meeting the simultaneous demands of visitors, telephone callers, researchers, and personal assistants who were preparing documents for Professor Stiglitz to take with him on business trips to Chicago and Washington later in the week.

I regarded my meeting with him as the chance to have a conversation about large strategic questions, given the role he played at the World Bank. I did not view it as an entry point into a technical discussion on land value taxation, or about finding a political strategy towards its implementation. Instead, it was a way for me to raise strategic questions about the long-term prospects of land reform, as well as the effects of an increasingly globalised world on the people who live in it and on those who govern them.

**Q:** I want to follow-up on what you had said some months ago about land reform.

**JES:** Let me put it in a broader context. The main, underlying idea of Henry George is the taxation of land *and other natural resources*. At the time, people thought, "*not really that too,*" but what was underlying his

ideas is rent associated with things that are inelastically supplied, which are land *and natural resources*. And using natural resource extraction and using land rents as the basis of taxation is an argument that I think makes an awful lot of sense because it is a non-distortionary source of income and wealth.

**Q:** In *Globalization and its Discontents*, you write (p.81): "But land reform represents a fundamental change in the structure of society, one that those in the elite that populates the finance ministries, those with whom the international financial institutions interact, do not necessarily like."

**JES:** Yes. Let me try to approach the question a little more systematically. Once you take the perspective I just gave, that means the management should be done in such a way that it maximises the amount of money available to the US government from natural resources because they are within its domain and control. So, looking at the United States, one of the implications of this is that a foundation such as yours ought to be very much against the policies of the US government of giving away our natural resources. Here is a case where we not only are not taxing it much, we're actually giving it away.

**Q:** I assume you're speaking in particular of oil and mineral rights, but would not Broadband Spectrum rights also be included in that category?

**JES:** Yes, Broadband Spectrum rights as well. Now, giving away rights such as those would be anathema to the spirit of Henry George. And the second part is that when you sell them, you want to do so in such a way as to maximise the revenues. And whether you decide to sell it or whether you decide to rent it, would be question of what is the way that maximises the extraction of public revenues.

**Q:** And those revenues go to the people. Not to private concerns.

**JES:** Exactly. So you're trying to say, from the perspective of public management, how can we take this inelastic supply of public resources and maximise the rents that we can extract from it, consistent with other public objectives? That is a very deep philosophical approach, and requires a re-thinking of how we manage all aspects of those public resources. However, much of what we do is inconsistent with that. Now, the issue of land reform is a little bit different. There, it's a two-step analysis. My concern that I expressed about land is that in many developing countries, you have most land owned by a few rich people, and the land is relatively little taxed. But the land is worked in a system of sharecropping in which workers have to pay the landlord fifty percent of their output. In a way, you can look at that fifty percent as a tax. The sharecroppers are paying a fifty percent tax to the landlord. But it's worse than a tax. Because it's not a land tax, it's a tax on their labour. And it's a tax that goes to the landlord rather than to society. So the notion is that

land reform could take a variety of different forms. For instance, the government could take over the land and rent it to the people. Or give it to the people and have a land tax that would not have the distortionary effect of land reform. So, in a way, these systems of share-cropping are worse even than anything that Henry George was worried about in terms of misuse of land.

**Q:** However, when you speak of land reform, do you have concerns about compensation as an issue in its implementation?

**JES:** That is one of the key issues. And there's a program at the World Bank that's been started in Brazil, which is called "Market-Based Land Reform" where they buy the land and give it or sell to the workers. They use government power to obtain the right to buy it.

**Q:** Has President Mugabe of Zimbabwe's misuse of government power to return land to its so-called "rightful owners" given land reform a bad name?

**JES:** That's true, but it doesn't have to be done that way. Now, one of the things that is again in the spirit of Henry George is that, if you have land taxes, then the market value of land goes down. What you're willing to pay for land is the difference between what you pay and what you get to keep after paying your land taxes. So, in a Henry George world, the amount of compensation would be very low. So one could argue that moving toward a land tax would facilitate that reform. Once we raise rates on land taxes, the market value will have to go down. The government can buy the land and redistribute it to the workers, and they then would be able to keep the fruits of their labour. They will continue to pay the land tax, but the product of their own efforts – their labour – will be their own, as opposed to sharing fifty percent with the landlord.

**Q:** Do you think land reform could possibly find a way onto the political agenda in the United States?

**JES:** No. Land reform is not a big issue in the United States because we don't have a lot of sharecropping. There's some, but it's very limited.

**Q:** What countries do you regard as the most politically open to tax reform as a means of achieving meaningful land reform?

**JES:** I think some countries in South America are moving in that direction. They're beginning to do this form of taxation because they want the land to be utilised. Some people own land but make no use of it.

**Q:** You mentioned the World Bank's program titled "Market-Based Land Reform." Is that the only international forum in which there is a chance of gaining politically-effective support for "land value taxation" as an instrument for land reform?

**JES:** There's not a lot discussion going on in those circles about land reform. The World Bank is still talking about it, as in the program I was talking about. And certain countries are continuing to talk about it within

themselves. But the IMF is not, and I don't know of any NGO (non-governmental organisation) that is.

**Q:** What are the greatest political obstacles confronting developing countries to the extraction of economic "rent" for public purposes? Is it simply a matter of "vested interests?"

**JES:** Yes, it's not very complicated. You know, in the Clinton Administration, we tried to reform the disposition of natural resources – mineral rights – by saying the US Government should not be giving this away to a few wealthy people. But the mining interests were adamant in opposing this reform.

**Q:** In your opinion, would it be more effective to attempt to achieve support from economists about the need for such reform, or to bypass them in seeking to build popular support independently from them, in that the views of mainstream economists on the topic of land reform might fairly be characterised as an "intransigent"?

**JES:** There are *some* economists who are interested in this. I think most economists would like the idea, and would support it. But, economists spend their time on things that they think have *marketability*. So it isn't that they don't think it's a good idea; they don't think there's any *resonance* in it. President Bush is still talking about the inheritance tax, and income tax, and they want to get involved in what other people are talking about. It's a *social* phenomenon, I think. So, if you get a lot of other people talking about it, then they'll join the fray.

**Q:** You are aware that Henry George was a critic of the moral foundations of our economic institutions. What do you think of reform efforts towards land value taxation based on an appeal to morality?

**JES:** What it fits into is that there is a wide view today that we should tax environmental "bads" such as pollution and the like. And switch from taxing good things like labour. So, in a way, that's where it comes in: let's stop taxing good things like labour, and tax things that are resources. So the argument is, "why tax things that are contributing to society?"

**Q:** I'd like to move to topics related to globalization because I read your book, *Globalization and its Discontents*, and, like many other people, found it fascinating. What has happened to the idealism that was supposed to make institutions such as the World Bank and IMF serve the inclusive interests of everyone in what was then called the Third World? You make the point that these have become institutions that serve the interests of wealthy nations almost to the detriment of poorer ones.

**JES:** The problem is that they believe that by helping the rich you help the poor.

**Q:** The old "trickle down" theory?

**JES:** Yes, "trickle down."

**Q:** But that's been fairly discredited, hasn't it?

**JES:** Yes, it has. But, as a general phenomenon, nobody likes to think badly of themselves. They always end up in arguments about why it's in the "General Good." But, on the other hand, I think that self-interest is a very strong force. That's what Adam Smith said, and I see it all the time.

**Q:** But haven't these institutions detached themselves from the grass-root interests of land-less people around the world?

**JES:** The IMF never thought of itself in that way. It began as a club of the rich countries to help each other out. And when the colonies got released, and the developed countries managed their own economies better, they went in and became the new imperialist power. That's an oversimplification, but they then became the agents of the advanced industrialised countries.

**Q:** You criticised "The Washington Consensus." From reading your book, I see that you summarise that set of doctrines as "1) Fiscal Austerity, 2) Privatisation, and 3) Market Liberalisation." What are, in your view, the central weaknesses of the policies that flow from the Consensus?

**JES:** It didn't work. I mean, the weaknesses are not that these are necessarily bad in their own right, but it's the balance. Fiscal prudence is a good thing. But they pushed it beyond where it ought to have been. Market liberalisation is a good thing, but not if it's done too fast.

**Q:** Would you say, then, that there is a structural flaw in the market system?

**JES:** There are many limitations. We all know that there are lots of examples where the markets fail, and you need a role for government. So where the structural problem is, it's their belief that there's not a role for government to play. And that markets can solve every problem. That's the structural failure: "Markets are perfect, and can solve every problem."

**Q:** For this interview, I also read George Soros' book, *On Globalization*, which I know you reviewed in the *New York Review of Books*. In it he states, "It is market fundamentalism, which holds that the social good is best served by allowing people to pursue their self-interest without any thought for the social good – the two being identical – that is a perversion of human nature"(p.179).

**JES:** Yes, George and I are very similar in our views.

**Q:** Don't you think we need to go deeper and look at the rules that govern the unequal bargaining power between the rich and the poor? Isn't that what really has to be attacked?

**JES:** Yes, that's what I'm saying in the book. The *underlying* problem is the way the rules are made. If the rules are bad, you need to ask the question, "how did those rules get established?" And it's the processes by which the rules get made that is the underlying source of the problem.

**Q:** Do you think that changing the rules is possible?

**JES:** I wrote the book because I believe that, in a democratic society,

pressure can be brought to bear on the rule-making process. As you become aware of who's at the table, why things are biased, they're responding, criticising. Even if it doesn't quickly change, it circumscribes the ability to continue with self-interest. The World Bank is already changing enormously. That was relatively easy. President Clinton appointed someone who has a very different mind-set from previous World Bank presidents. The rest is very hard. The IMF has not made that kind of change. It's still a long, hard road for both of them. In some ways, the WTO [World Trade Organisation] is in an even more difficult position. But that's the great thing about democracy: we have so many critics. We have newspapers, and people like me and George Soros writing books.

**Q:** Aren't you also saying that the real impetus will come from democratically-elected representatives with the political power to make changes?

**JES:** But they also respond to public pressure. In the last Presidential Debate between Bush and Gore, both sides said that we had to change the IMF. Clearly, the issue of the IMF had raised itself to a level – it's still not in everyday talk in that it's not what most Americans think about – that it got thirty seconds or a full minute in a Presidential Debate between Bush and Gore. Well, that's a big achievement from where it was before. The IMF is a very important institution for developing countries and most Americans have never heard of it.

**Q:** I was at a conference recently on the French concept of "mondialisation" as opposed to "globalization." The French consider the spirit of "mondialisation" to be more "generous" towards less developed countries, in contrast to the American idea of pursuing our national interest without regard to theirs. Would you call yourself a proponent of "mondialisation" rather than of "globalization"?

**JES:** It is interesting that my book has been selling fantastically in France, so they obviously sense the commonality in our views.

**Q:** Let me ask you about Russia. President Putin has been a prominent advocate of the need to shift the fiscal base away from people's wages and savings and on to the rents of natural resources. But this strategy flew in the face of conventional tax wisdom, which favoured a "broad tax base" that included the use of "stealth" taxes. The IMF, by its actions (if not its public declarations), strenuously opposed the Putin strategy. What might President Putin do to remain engaged in the process of pro-market reforms while retaining the support of foreign investors and at the same time shifting the tax base on to the rents to be derived from Russia's natural resources?

**JES:** Russia provides another good example of what I've been talking about. The fact is that their economy has been imploding. And it's become nothing more than a natural resource economy as a percentage of the GDP

– about sixty to seventy percent. At that point, natural resources become the only major source of revenue. So they've been forced to move in that direction by necessity. And, obviously there's a political economy tension: the rich guys don't want to give it up. But that's the direction they're going to move in because there's no alternative.

**Q:** Your academic work led you to formulate what you called “the Henry George Theorem.” This demonstrated that public spending – where this was efficient – generated additional rental value that surfaced in the land market. Other distinguished scholars, such as the late Nobel prize winner, William Vickrey, confirmed your findings. You also noted in one of your books, co-written with Anthony Atkinson, that the Henry George Theorem was attractive both because it was the revenue-raiser that did not distort private incentives and because “it is the ‘single tax’ required to finance the public good.” [Anthony B. Atkinson & Joseph E. Stiglitz, *Lectures on Public Economics*, London: McGraw-Hill, 1980, p.525]. Now, public investment, unless of the wasteful kind designed to serve the privileged interests of rent seekers (the classic type being a land speculator), should be viewed as working in partnership with the private sector and not a drain on the community. How can the reputation of publicly provided services and investments be rescued?

**JES:** That's a very good question. What we did when I was at the Council of Economic Advisers was some studies to try to show what the social returns would be to public investment in R&D, etc. And we became convinced that the rates of return of those investments are very high. So you ask the question, “what can we do to restore confidence in public investment?” We need to realise how much we depend on them. I keep telling people, “The Internet.” That's one example. It was publicly funded. It's now a public-private partnership. The government did the basic research, and the private sector ran off with it. But, arguably, we would never have had the Internet if it were not for government expenditure. So I think a major industry in the United States – biotech – is based on NIH (National Institutes of Health). NIH does all the basic research.

**Q:** From the conference on “mondialisation,” I saw a major difference in attitude among the French with regard to public investment. The French believe strongly in public funds for public works, whereas Americans believe they shouldn't be taxed more in order to support public projects. Which view do you agree with?

**JES:** There's been a lot of so-called “bad rhetoric” in this whole area. The real point is that we need to recognise that there are some things in the area of “the *public* sphere.” We're not having investment in basic research; we need to have the government do it. And that's what I've consistently been arguing; you don't want the government building steel factories. But you do want the government doing certain research, and the relative size of

that depends on the society. Right now, we should be spending far more on *basic* research. So what is the message. I think how much we depend on the government. And the new economy, we take it for granted, but it is the public sector. I think you're right that we have the wrong view. But I keep saying, "The Internet." How much has it changed our lives? And it's [the result of] the government.

**Q:** And yet, in American society, the idea is instilled that one ought to take for one's own benefit, so as to have the big cars and houses, etc., that will impress other people, rather than to give in order to promote a public benefit. Aren't those the actual values of American society?

**JES:** We need to realise that our livelihood today depends on our innovation, and our innovation depends on our sciences. Our livelihood depends on our global position. For example, we have to be able to fly, to go to the airports.

**Q:** I wanted to ask your view on the adequacy of land as a tax base. At one time, as you know, there was a "Single Tax" movement, for the purpose of deriving revenues sufficient to run the government solely from land value taxation. In your view, how feasible is that today?

**JES:** Most economists would say that you cannot run the US economy on the "Single Tax." In my mind, the "Single Tax" is the wrong way to think about it. The question is: "Would it be better if we had more taxation of land and natural resource, and more revenue from natural resource management, and I would include atmosphere and spectrum." And less tax on income and savings. And I would say, "Yeah." And I think many economists would agree with that. So, if you want to sell it as a "Single Tax," then, no, you won't get anyone to agree that there's enough revenue there. If you look at it as a more "central" tax, then, yes, you will get most economists to agree with you.

**Q:** A former Director of Robert Schalkenbach Foundation was given a grant recently to research the adequacy of land as a tax base. He's a professor at the University of California, Riverside, named Mason Gaffney, and he wrote a book titled, *The Corruption of Economics*. Are you familiar with his work?

**JES:** No.

**Q:** I'll send you a copy of the book. Basically, he argues that the founders of neo-classical economics, which, as you know, is the paradigm taught in schools such as the University of Chicago, distorted the science of economics to protect vested interests. For example, Rockefeller money was spent to hire professors of economics with a view to their discrediting the ideas of Henry George. Did that happen?

**JES:** My general impression is that most donors that give money to universities don't take a very strong view of [who should be on] the faculty. Sometimes it ends up on one side, sometimes on the other. It

would have been unusual [at Chicago], but it could have happened there. What is striking about Chicago as a school of economic theory is that it's very conservative. One would have thought that Henry George was someone who would have been liked by "Conservatives".

**Q:** In that George wanted to reduce tax on the fruits of one's own labour?

**JES:** Exactly. And you want non-distortionary taxes, so I would have thought that every "Conservative" would be in Henry George's camp. Now, as far as I know, I'm one of the few people who keeps emphasising that you ought to view Henry George in a broader way, to include natural resources. I didn't think that people thought about that a hundred years ago. But if they had, and maybe Rockefeller was smart – he realised that he obviously didn't want a tax on natural resources.

**Q:** He wouldn't have wanted rents flowing from natural resources to go to the people rather than to him.

**JES:** Yes, he obviously wouldn't like that perspective. But I don't know if that view was at that time recognised, and I just don't know whether he actively intervened at Chicago.

Professor Stiglitz's time was limited, and I was grateful for his kindness in giving me an interview. Getting in to see was not easy. I had many other questions for him, but they will have to wait for another day. As promised, I mailed him a copy of *The Corruption of Economics* later that afternoon. My meeting with him was a valuable experience in many ways, not the least of which was to hear views expressed by one of the most eminent economists of our day that favoured extracting rental value from natural resources for the benefit of the people. His views sounded modern, and yet I knew that, in many respects, they echoed positions that Henry George had taken over a hundred years ago. He would have felt proud to hear what Professor Stiglitz had to say.