

1.4bis. Economic policy doctrines

1. Neoliberalism

Neoliberalism is the doctrine that the best economic policy is to 'leave everything to the market' and eliminate public intervention in the economy. Recent decades have witnessed a reorientation of economic policy towards neoliberalism. Changes associated with the neoliberal reorientation of economic policy include:

- discard fiscal policy in favour of monetary policy;
- policy objectives are not focused on unemployment and growth but on inflation and price stability;
- attributing the causes of unemployment to the functioning of the labor market and, specifically, to its 'inflexibility' (resistance to wage cuts, difficulties in firing workers...);
- the problem of unemployment can only be solved through labour market 'reforms' and the elimination of its 'rigidities', associated with the power of unions, long-term employment contracts and minimum wage regulations;
- the solution to the unemployment problem does not derive from demand-side policies or industrial or regional policies designed to confront the problem of structural unemployment;
- the liberalization and deregulation of markets (in particular, financial markets) and the elimination of capital controls that regulate the flow of capital between countries.

2. Classical liberalism

Classical liberalism defended, above all, individual freedom and autonomy. As a result, it advocated economic policies that:

- favored market freedom and economic freedom;
- were respectful of individual rights;
- implied limited intervention by public authorities in the economy;
- deregulated economic activity;
- minimized the use of taxes (including tariffs);
- were not social in nature (there was no need for them in a welfare state).

https://en.wikipedia.org/wiki/Classical_liberalism

Neoliberalism is 'classical liberalism on steroids'. "Neoliberalism is characterized by the privatization of virtually every industry and the complete commercialization of culture. It is responsible for the rapidly increasing cost of healthcare, higher education, and hospitality (...) Instead of being reinvested to stimulate the economy, neoliberal profits are concentrated among executives."

"Neoliberalism is an economic philosophy turned into a social ideology; money comes first. Classical liberalism, on the other hand, began as a social philosophy and then turned into an

economic framework. Classical liberal philosophers were writing about individual liberty during the era of monarchies; personal self-determination came first. Yet neoliberal sophists use this classical liberal language to justify economic policies that overwhelmingly infringe on individual liberties for the majority of the population."

<https://medium.com/share-the-wealth/neoliberalism-vs-classical-liberalism-c1c061de04ae>

3. Ordoliberalism

Ordoliberalism is the German variant of economic liberalism. In the ordoliberal economic vision, public powers are subordinated to the interests and needs of the private sector: the main economic task of the government is to guarantee the conditions for the enjoyment of market freedom and competition between private economic agents. The government is an arbitrator and facilitator, not a protagonist. The economic mission of the government is to avoid concentration in the market: monopolies and oligopolies distort the smooth functioning of a market economy and, through political capture, undermine good governance.

Ordoliberalism applies the division of functions to economic policy. On the one hand, monetary policy is assigned to the central bank, which is charged with the mission of guaranteeing financial and price stability and, to this end, is isolated from political confrontation by turning it into a 'technical' body. On the other hand, fiscal policy is attributed to the government, which has the responsibility of balancing income and expenditure. In parallel, dialogue between unions and employers is institutionalized as an instrument of macroeconomic stabilization.

With respect to the welfare state, ordoliberalism does not have a favorable or unfavorable position. Ordoliberalism defends the social market economy as a socioeconomic model. The foundation of the model is a capitalist free market economy where appropriate social policies and regulation ensure the proper functioning of the economy (mainly, ensuring free competition). How extensive and deep the social policies (the welfare state) are remains undetermined and depends on the particular economy or economic situation. <https://en.wikipedia.org/wiki/Ordoliberalism>

4. Socialism

In the economic relations between the public and private sectors, classical liberalism and neoliberalism are at the extreme where the role of the public sector is residual or minimal. Ordoliberalism increases the weight of the public sector, but maintains it in a subordinate position with respect to the private sector. Socialism crosses to the other side of the scale and places the public sector in a dominant position with respect to the private sector.

The different socio-economic models called socialist attribute a fundamental role to public or collective ownership of the means of production and defend the importance of regulating private economic activity (due to numerous and serious externalities of private economic activity). In the 'central' version of socialism, the private and public sectors coexist. As a result of coexistence and collaboration, market socialism emerges as a socio-economic model. Between market socialism and

liberal capitalism, there would be the third way of the social market economy of ordoliberalism (which seeks to reconcile social justice and classical liberalism).

Marxism and the most extreme visions of socialism go to the other extreme, advocating that the private sector should be residual or minimal. By eliminating market capitalism, the aim is to avoid all the negative externalities that are spontaneously and inevitably generated in the private sector, expressed in economic crises with high social and economic costs and in immorally unequal distributions of wealth.

<https://en.wikipedia.org/wiki/Socialism>

https://en.wikipedia.org/wiki/Market_socialism

Mixed economy socioeconomic model mixes institutions of capitalism (market economy, private enterprises) and market socialism (public enterprises, regulation of private economic activity).

https://en.wikipedia.org/wiki/Mixed_economy

5. Xinomics

Google offers the following explanation of the term 'Xinomics' ('Xi Jinping's economic policy' or 'Chinese economic model of state capitalism').

"Xinomics refers to Chinese President Xi Jinping's economic policies and the shift towards a more state-controlled, hybrid economic model characterized by the Dual Circulation Strategy. Key features include increased control over state-owned enterprises, a greater role for the Communist Party in the economy, and a focus on strengthening the domestic economy while managing its relationship with the global economy. This approach represents a departure from Deng Xiaoping's 'reform and opening-up' era, which favored a greater role for private and foreign capital.

Key Characteristics

- **Strengthening State-Owned Enterprises (SOEs).** A core component of Xinomics is making SOEs bigger, better, and stronger, promoting the idea of the state advancing while the private sector retreats.
- **Increased Communist Party Control.** The Communist Party exerts tighter control over economic decision-making and requires private companies to establish Party organizations within their companies.
- **Dual Circulation Strategy.** This strategy divides the economy into domestic and international spheres, managing the links between them and focusing on self-reliance.
- **Politicized Economy.** Ideology, security, and politics are deeply intertwined with China's business environment, making it more uncertain.
- **Hybrid Economic Model.** Xinomics blends aspects of state-controlled economies with some privatization and deregulation, particularly in consumer-facing sectors, but with overall tightening of Party control."

“China’s ‘Great Dual Circulation’ is an economic strategy that divides the economy into ‘internal circulation’ (domestic economic activity) and ‘external circulation’ (global economic interaction), with the goal of developing a self-reliant Chinese economy that mutually reinforces its strength and openness to the outside world. The strategy prioritizes strengthening the domestic market to reduce dependence on foreign fluctuations and promoting Chinese standards and priorities internationally, fostering a ‘home-based globalization’.

Key Aspects of the Dual Circulation Strategy

- **Prioritization of Domestic Consumption**

The strategy aims to make the Chinese economy less reliant on external markets by boosting domestic demand and consumption, thereby making it more resilient to global economic shocks.

- **Increased Self-Reliance**

China seeks to become more self-sufficient in key sectors, particularly high-technology industries, to reduce dependence on foreign supplies and technology.

- **‘Home-Based Globalization’**

China intends to become the world’s largest consumer market, encouraging foreign companies to adhere to Chinese standards and priorities to gain market access and promote them globally.

- **Mutual Reinforcement**

While focusing inward, the strategy is not a complete break from the global economy; instead, it seeks a symbiotic relationship where a strong domestic economy supports international engagement, and international trade and investment contribute to internal strength and industrial upgrading.

- **Shifting Focus from Integration**

The dual circulation concept signifies a move away from China’s previous emphasis on seamless integration into the global economy toward a more distinct and managed interaction between its large domestic market and the rest of the world.”

<https://www.google.com/search?client=firefox-b-d&q=great+dual+circulation>

6. Traps China might fall into

“... if Mao made China independent (zhan qi lai), and Deng made it prosperous (fu qi lai), Xi will make it strong again (qiang qi lai). Thrilled by this prospect, a top education official predicted that in 2049, Chinese standards of education will become the standards of the world.

In order to fulfill these ambitious targets, China has to overcome four traps: the Middle-Income Trap, the Tacitus Trap, the Thucydides Trap, and the Kindleberger Trap.

The Middle-Income Trap occurs when a country attains a certain income and gets stuck at that level, which falls short of that of advanced economies (...) GDP growth may continue to be used as the yardstick to measure local government officials’ performance. Meanwhile, in recognition of the social cost associated with the single-minded pursuit of economic growth, Beijing is taking a more proactive approach in promoting other developmental goals, including environmental protection and poverty alleviation.”

“The Tacitus Trap (...) describes a situation where no matter what the government says or does, people will consider it a lie or a bad deed. President Xi himself used the term to highlight the need to maintain government credibility, without which ‘he Party’s legitimacy foundations and power status will be threatened.’ In order to overcome the Tacitus Trap, the Chinese state is supposed to introduce more transparency, restructure state-society relations, and renew its legitimacy base.”

“The Thucydides Trap is the theory that a rising power will inevitably challenge the dominance of an existing hegemon, and the latter’s fear of that prospect can trigger competitive dynamics that ultimately lead to confrontation, even war.

The Kindleberger Trap was coined by Harvard professor Joseph Nye but derived from the late economic historian Charles Kindleberger. Both the Thucydides Trap and the Kindleberger Trap highlight the danger inherent in the shifting balance of power. What makes them different is that rather than focus on the threats from a strong aspirant power (as implied by the Thucydides Trap), the Kindleberger Trap attributes the failure of the international system to the under-provision of global public goods. Kindleberger argued that the chaotic and disastrous nature of the 1930s was caused by the failure of the United States to assume the international responsibilities that came with the mantle of the largest global power that it took from Great Britain. The term can also be used to explain the challenges faced by the current global governance regime. As the United States seems to be retreating from its international commitment, the international community is turning to China, which has indicated its interest in filling the void left by the United States. Yet as I noted in a recent piece, China has to overcome significant capacity gaps –small amounts of foreign aid, a lack of soft power, and mounting domestic political economy challenges– before it can play the role of a true global leader.”

<https://www.cfr.org/blog/four-traps-china-may-fall>

7. Maganomics and Trumponomics

“Even those who predicted negative consequences with a second Trump term have been surprised by the damage MAGA has done to the strengths of the American economy and the speed with which it has undermined what is popularly known as ‘American greatness.’ In less than seven months of this Trump administration, it has rapidly brought the colossal government apparatus to the brink of collapse, including science and healthcare. It has destroyed the government’s ability to effectively perform its most basic functions.

The roots of MAGA are nationalism, populism, and demagoguery. Its economic model, MAGAnomics, has six main components.

First, the use of trade tariffs as a tool of political pressure at rates far higher than those imposed during his previous presidency. According to basic economics, such high tariffs cause inflation and reduce real incomes.

Second, the mass deportations of undocumented immigrants, which are highly disruptive to agriculture, construction, and certain manufacturing sectors.

Third, politicize the Federal Reserve to force it to conduct monetary policy as they see fit, trampling on its autonomy.

Fourth, indiscriminately reduce procedures, services, and the size of the bureaucracy to increase efficiency (Musk's DOGE program).

Fifth, cut social health programs and suspend the food stamp program.

And sixth, implement significant tax cuts for the wealthiest segments of the population.”

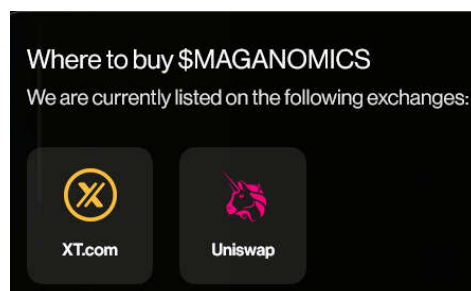
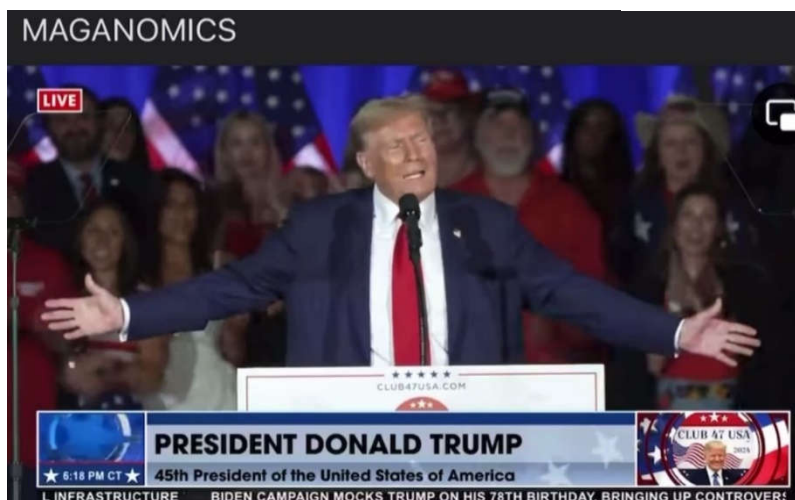
“Trump has been erratic in all of this implementation. His tariff policy changes at will (...) Deportations, while brutal and illegal in many cases, have not yet reached the massive numbers comparable to those under Obama. The pressure on Powell and the Federal Reserve has, so far, been merely uncomfortable rhetoric. DOGE has ended, and Musk has left the administration. Finally, the cuts to Medicaid have been extreme (\$700 billion), which will leave millions of citizens without health insurance. Additionally, the food stamp program was cut by \$300 billion, which will increase hunger among impoverished segments of the population. Finally, tax cuts have benefited billionaire oligarchs who have become even richer, in addition to awarding contracts to the president's friends, fostering crony capitalism.”

“It can be concluded that, so far, MAGAnomics has promoted chaos and uncertainty. Much of the damage may be permanent. Even if MAGA and Trumpism were to eventually lose power and their policies were reversed, the United States will never return to being the nation it was, flaws and all, in 2024. As Nobel Prize-winning critic Paul Krugman says, Trump is committed to MABA (Make America Backward Again), that is, to making the United States a backward country again. Nevertheless, Krugman has enough faith in his country that this ‘reign’ will one day end. But he doesn’t expect to see a full recovery in his remaining lifetime.”

<https://www.economista.com.mx/opinion/dano-maganomics-20250812-772337.html>

(translated by Google)

“I would give myself an A+” — Donald Trump, April 2018



“Maganomics is the economic policy crafted by Donald J. Trump prioritizing wealth and prosperity for all.”

<https://maganomics.com/>

“While the end of World War II 80 years ago ushered in an age of reason, Donald Trump’s return to the White House has ushered it out. His MAGA (Make America Great Again) movement promises to take a wrecking ball to the postwar global economic order, raising the question of what will

replace it. 'America First' seems to appeal to a wide spectrum of constituents, from blue-collar workers in the heartland to Big Tech 'broligarchs.' But what does it mean in practice?"

"At his second inauguration, Trump announced a new American "golden age," which presumably would be achieved by delivering on his campaign promises to end inflation, impose new tariffs, expel undocumented immigrants, cut taxes, and radically reduce the size of government. But mainstream economists were quick to point out that achieving these contradictory objectives simultaneously will be difficult, if not impossible. After all, tariffs, deportations, and tax cuts are all potentially inflationary. What are we to make of MAGA economics – or what is variously referred to as 'economic nationalism,' 'Trumponomics,' or 'populist economics'? Is it the progeny of economics, or something else entirely? Economics traditionally has comprised coherent schools of thought: neoclassical, Keynesian, monetarist, and Marxian economics, for example, follow a certain internal logic. But MAGAnomics is an intellectual grab bag. Start with Trump's emphasis on tariffs, which represents a repudiation of neoclassical economics' commitment to free trade and a return to mercantilism or the heterodox developmentalism of the left. Meanwhile, 'industrial policy' – active government interventions to support strategic industries, which are typically associated with government-led planned economies – somehow coexists with the echoes of anarcho-libertarianism implied by the war on the 'deep state.' Likewise, whereas the rejection of austerity and tolerance for deficit spending smacks of Keynesianism, the focus on deregulation and tax cuts harks back to Ronald Reagan and trickle-down economics.

Thus, MAGAnomics is simultaneously considered to be 'pro-business' (corporate tax cuts and deregulation) and 'pro-worker' (reindustrialization, reshoring, and anti-immigration). By rejecting the logic of Ricardian comparative advantage, Trump rejects the supreme criterion of neoclassical economics: efficiency. Yet he supports the mission of Elon Musk's 'Department of Government Efficiency' (DOGE) (...) Unlike traditional schools of economic thought, MAGAnomics operates as a pastiche of contradictory doctrines and impulses crammed together under the banner of nationalism and grievance politics. Trump's brand of economic nationalism resonates not because of any theoretical coherence, but through its emotional appeal. The currency of MAGAnomics is not analytical rigor; it is affect – wounded pride, humiliation, and, above all, anger. Legions of experts and academics, especially economists, have struggled to rationalize what is fundamentally an emotional phenomenon."

"... a defining feature of MAGAnomics: its animus toward experts and elites (...) Its power lies in its ability to channel collective frustrations into a political agenda whose purpose is not economic stewardship but cultural messaging (...) MAGAnomics may not qualify as a school of economic thought, but economists need to recognize that it is no mere aberration, but rather a symptom of the deeper, longstanding shortcomings of the orthodoxy that prevailed in the aftermath of WWII. A reckoning is in order, not just with Trumpism, but with the assumptions that made it possible in the first place (...) Until and unless economists get their discipline's house in order, the MAGA madness will be here to stay."

Haldar, Antara (2025): "What Is MAGAnomics?"

<https://www.project-syndicate.org/commentary/maganomics-intellectual-grab-bag-for-political-messaging-not-economic-results-by-antara-haldar-2025-02>

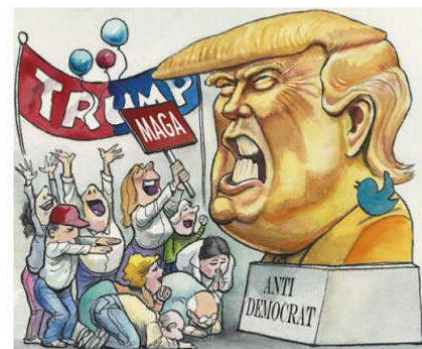
8. Core principles of Trumponomics (Moore and Laffer, 2018)

- Put America first always. Globalism is rejected: no other nations' interests above America's or the Americans' interests. "World government and multinational governing bodies are dangerous and misguided solutions."
- Restore American patriotism. America is a special place, great and good. In Ronald Reagan's words: "Divine providence put us here as a beacon of freedom for the rest of the world."
- Reject government paternalism: "Empower Americans to make decisions for themselves." Letting people choose and the forces of competition freely operate produces better results than regulations and government intervention.
- Rebuild America's inner cities. "This means eradicating crime, violence, drug abuse, corruption, and joblessness." "One of Trump's big urban initiatives is the designation of 50 enterprise zones—mostly poor areas in inner cities—that will be targeted for lower capital gains taxes, regulatory relief, and the clearing of other barriers to development."
- Protect borders: "Secure and protect our borders from drug runners, terrorists, illegal immigrants, and criminals." "A nation without borders is not a nation."
- Promote and support American business. "Liberals love jobs, but they hate job creators. As Trump likes to say: you can't have one without the other."
- "Reject identity politics. The prevailing liberal mindset is that Americans are inherently divided by race, sexual orientation, ethnicity, and class and that there is a zero-sum game being played among all those divisions. No. We are one nation under God, indivisible. Everyone can be better off, and the gain of one person does not necessarily equal the infringement of another."
- "Reject declinism and celebrate that America's best days lie ahead. This means rejecting the limits to growth, secular stagnation, and the environmental doomsdayism (climate change) that animate the left today. Trumponomics is predicated on a faith in the future and a confidence that America can solve any problem through innovation, invention, technology, and a healthy dose of just plain American can-doism."
- "America's most valuable role in the global economy is to lead by example. Our most important gift to the world is to export the virtues of democratic capitalism and free enterprise. When we get it right, the rest of the world follows."
- "The final and we would argue the most important principle of Trumponomics and restoring American prosperity is this: Growth is everything. Faster economic growth is a necessity if America is to fix its socioeconomic problems."

Moore, Stephen; Arthur B. Laffer (2018): *Trumponomics. Inside the America first plan to revive our economy*, All Points Books.

9. Policy measures of Trumponomics (Moore and Laffer, 2018)

- “Cut unnecessary regulations”
- “Improve American competitiveness by slashing tax rates and burdens”
- “Replace welfare with work”
- “Use America’s abundant natural resources”
- “Modernize America’s infrastructure”
- “Encourage twenty-first-century healthcare and education based on choice and competition”
- “Promote free and fair trade deals”
- “Reduce government spending”
- “Implement a pro-America immigration policy”



“We are frequently asked: Does the Trump trade doctrine risk a trade war? Our answer is always the same: hopefully not, but it could happen, to everyone’s detriment, if other nations don’t stand down and play by the rules they agreed to. Trump’s response (in a tweet, of course) to his critics is that “we’ve already been in a trade war for decades and we’re losing.” Other nations are clearly shirking on the trade laws, but it’s hard to see how “we’re losing” given that today our economy is the envy of the world.”

Moore, Stephen; Arthur B. Laffer (2018): Trumponomics. Inside the America first plan to revive our economy, All Points Books.

10. Is Trumponomics a geopolitical failure?

“Russia thought energy dependence would force Europe to accept its invasion of Ukraine in 2022, and that calculation was partly right: Europe has found it hard to wean itself off of Russian oil. Moreover, energy deals are at the heart of Russia’s improved relations with both India and China, providing the economic underpinning for a new anti-American coalition.

China is in an equally strong position, owing to its control over strategic raw materials and their processing, particularly rare earths and other critical minerals. Gallium and germanium are key ingredients only in not green energy technologies, but also in LEDs, fiber optics, and high-performance electronic devices. And antimony, also predominantly sourced from China, is crucial for high-performance military equipment and as a fire retardant.

In response to US President Donald Trump’s ‘Liberation Day’ tariff announcement in April, China imposed new restrictions on seven additional rare earths: samarium, gadolinium, terbium, dysprosium, lutetium, scandium, and yttrium. Having demonstrated little previous awareness of their importance, the Trump administration had to backpedal almost immediately on multiple fronts of its trade war.

The US has been scrambling to imitate the Russian and Chinese strategies, ramping up energy production and pouring public money into promoting the development of rare-earth production. But both efforts are problematic.

While short-term oil and gas production may have increased, new investment in drilling and pipelines will be required in the long run (...) Developing rare earths is more plausible, but it will take time (...) The newest US rare-earths company, MP Materials, started up in 2017 and has now secured its future by giving the Pentagon a \$400 million equity stake, coupled with a purchase guarantee for what it mines. But while Trumpian state capitalism can prevent future bankruptcy, it cannot perform miracles. MP's key investment, the 10X Facility, will not start producing until 2028 or later.

So, in its desperation to do something more immediately effective, the Trump administration has reached for the most obvious and widely discussed lever: the dollar. Back in the 1960s, Valéry Giscard d'Estaing, then France's finance minister, famously complained that the greenback's global primacy gave America an 'exorbitant privilege' within the global economy. Now, Trump seems to want to test the limits of that privilege, even as he pursues other priorities (such as threatening the independence of the US Federal Reserve) that undermine it."

"As a recent International Monetary Fund report makes clear, the dollar is indisputably at the center of the global financial system. But trade and finance move at different speeds, because the former depends on the exchange of production, while the latter is simply a platform. If one financial platform has problems, it can be changed. Substantial sunk costs did not prevent Genoa, Antwerp, or Amsterdam from losing their positions as global financial centers.

Moreover, it is easier, and much quicker, for other countries to develop alternatives to the dollar than for America suddenly to develop its own rare-earths industry (...) Recall Facebook's Libra initiative, undertaken in a much more stable world, to launch a blockchain-based currency benchmarked to a basket of other currencies. While this effort immediately ran into opposition from the United States and the European Union, there were no technical hurdles to pulling it off. While alternatives to the dollar – such as the euro or renminbi – looked implausible in the past, blockchain makes possible the old dream of a world currency.

To be sure, the Trump administration believes that stablecoins secured against the US dollar will increase demand for Treasury bills and bonds, thus allowing the US to service its vast national debt more easily. But while almost all stablecoins are indeed dollar-pegged, it would take only one financial crisis in the US, or even just the hint of one, to create an impetus for coins pegged to a basket of other strong currencies (such as the Australian, Canadian, and Hong Kong dollar, the Norwegian and Swedish krone, and the Swiss franc). An imaginative issuer of a new synthetic currency could even add in some pure cryptocurrencies, and almost certainly would also include the world's most enduring monetary backstop, gold.

In any case, Trump is impatient about asserting America's role in the world. He likes quick results and disdains losers. But despite the country's abundance of talent and ingenuity, he has picked a fight that he is unlikely to win. The growing risk to the dollar's global role will see to that."

James, Harold (2025): "Trump is losing his Geoeconomic War"

<https://www.stabroeknews.com/2025/10/02/features/project-syndicate/trump-is-losing-his-geo-economic-war/>

<https://www.project-syndicate.org/commentary/trump-losing-geo-economic-war-dollar-decline-most-likely-outcome-by-harold-james-2025-10>

11. Washington consensus

The term ‘Washington Consensus’ was suggested by John Williamson (1990) to designate a set of economic policy proposals that certain institutions (IMF, World Bank, US Treasury Department) were proposing to Latin American governments. These proposals (collectively considered ‘pro-market’ measures) can be grouped into three categories:

- ‘less government’, through fiscal discipline, reorientation of public spending, and tax cuts;
- ‘more market’, that is, measures favoring private sector economic activity (deregulation, privatization, guarantee of property rights); and
- international openness (financial, trade, and foreign direct investment).

Ten years after the proposal, Williamson (2000) recapitulates.

“... years ago I invented the term ‘Washington Consensus’ to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989 ... I have long been doubtful about whether my phrase served to advance the cause of rational economic policymaking ... I find that the term has been invested with a meaning that is significantly different from that which I had intended and is now used as a synonym for what is often called ‘neoliberalism’ in Latin America, or what George Soros ... has called ‘market fundamentalism.’ When I first came across this usage, I asserted that it was a misuse of my intended meaning.”

“... there is a real danger that many of the economic reforms favored by international development institutions—notably macroeconomic discipline, trade openness, and market-friendly microeconomic policies—will be discredited in the eyes of many observers, simply because these institutions are inevitably implicated in views that command a consensus in Washington and the term ‘Washington Consensus’ has come to be used to describe an extreme and dogmatic commitment to the belief that markets can handle everything.”

“The Original Version

My original paper ... argued that the set of policy reforms that most of official Washington thought would be good for Latin American countries could be summarized in 10 propositions:

- Fiscal discipline
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
- Tax reform (to lower marginal rates and broaden the tax base)

- Interest rate liberalization
- A competitive exchange rate
- Trade liberalization
- Liberalization of inflows of foreign direct investment
- Privatization
- Deregulation (to abolish barriers to entry and exit)
- Secure property rights.

The need for the first three reforms is, so far as I am aware, widely accepted among economists.”

“Current Usage

... when I coined the term in 1989, the market fundamentalism of Reagan’s first term had already been superseded by the return of rational economic policymaking, and one could discern which ideas were going to survive and which were not (monetary discipline but not monetarism; tax reform but not tax-slashing; trade liberalization but maybe not complete freedom of capital movements; deregulation of entry and exit barriers but not the suppression of regulations designed to protect the environment). How is it that a term intended to describe a technocratic policy agenda that survived the demise of Reaganomics came to be used to describe an ideology embracing the most extreme version of Reaganomics?”

“The popular, or populist, interpretation of the Washington Consensus, meaning market fundamentalism or neoliberalism, refers to laissez-faire Reaganomics—let's bash the state, the markets will resolve everything.”

[“... principal economic institutions located in Washington: the U.S. Treasury, the Federal Reserve Board, the International Monetary Fund, and the World Bank.”]

Williamson, John (1990): “What Washington Means by Policy Reform”, capítulo 2 en John Williamson, ed., *Latin American Adjustment: How Much Has Happened?*, Institute for International Economics.

Williamson, John (2000): “What Should the World Bank Think about the Washington Consensus?”, *The World Bank Research Observer* 15(2), 251-64.

12. Has the Washington consensus failed?

Moisés Naím (2002) concurs with the bastardization of the expression ‘Washington Consensus’ and that this has tended to reinforce the rejection of the corrupted version among those targeted, even though, in his view, the corrupted version retains some sensible proposals from the original. The hypocrisy of the governments of more economically developed countries also contributed to the discrediting of the consensus measures, as they prescribed them to the governments of less developed countries but failed to implement what they themselves preached.

“During the first half of the 1990s ... privatisation, trade liberalisation and deregulation were the common building-blocks of the economic reforms that seemed to be sweeping the world. Many called these policies the ‘Washington consensus’.”

“Governments everywhere did indeed profess to share remarkably similar goals; many adopted a market-oriented stance in their economic policies. But what they in fact did was often at odds with the policies they had announced or even the promises they had made to the International Monetary Fund.”

“To its early-1990s consumers, the Washington consensus carried a whiff of imminent prosperity and the promise of a flood of foreign money and goods. Over time, the living standards associated with American capitalism and globalisation became important parts of this brand’s allure. Naturally, the politicians and multilateral institutions that were ‘selling’ the product had no interest in curbing these illusions or in nurturing more realistic expectations about how quick, painless and widespread the benefits of these reforms would be. High expectations often lead to disappointment and this case is no exception. As befits a global brand, frustrations with the consensus are now global and the brand is irreparably damaged.

Instead of prosperity, the consensus now emits the poisonous odours of a recipe concocted in Washington by a cabal of inept technocrats who are out of touch with the realities of poor countries or, even worse, are in the pockets of Wall Street. Widely derided as ‘market fundamentalism’ or ‘savage neo-liberalism’, the concoction is accused of making the poor poorer and the world unacceptably inequitable and dangerously unstable. In many countries, privatisation, trade liberalisation and fiscal austerity have become politically noxious ideas.”

“The consensus may be an impaired brand, but some of the ideas remain sound. A recent study, for example, has found that infant mortality fell 6 per cent in the Argentine municipalities that privatised their water services and that this positive effect was larger in the poorest municipalities, where infant mortality fell 24 per cent.”

“The Washington consensus was never meant to be used as a development programme, a national project, a doctrine or a political platform, much less as an ideology. Alas, at one time or another and in different countries it was called on to perform all of these functions. Naturally, it failed miserably.”

“Also, the consensus was often badly or partially implemented and some of its policies are in urgent need of revision. It also ignores important areas where better government intervention is needed. But its core ideas are far better than the damaged brand that now leads most clients to repudiate the product.”

Naím, Moisés (2002): “The Washington Consensus: A Damaged Brand”, Financial Times, 28 Oct 2002

<https://carnegieendowment.org/posts/2002/10/washington-consensus-a-damaged-brand?lang=en>

While Williamson (2002), along with Naím (2002), acknowledges the prevalence of a distorted interpretation of the Washington Consensus, he continues to argue that the three principles of the

original version—public sector budgetary discipline, a market economy, and an open economy—remain valid in the design of economic policy. He identifies reasons for the failure to implement the Consensus's proposals: their adoption as a set of ideological principles rather than as a technical-pragmatic guide; their partial or incomplete implementation; and the fact that their objectives were modest, focused on growth rather than development.

"It is difficult even for the creator of the term to deny that the phrase 'Washington Consensus' is a damaged brand name (Naím 2002). Audiences the world over seem to believe that this signifies a set of neoliberal policies that have been imposed on hapless countries by the Washington-based international financial institutions and have led them to crisis and misery ... The basic ideas that I attempted to summarize in the Washington Consensus have continued to gain wider acceptance over the past decade, to the point where Lula has had to endorse most of them in order to be electable."

"The three big ideas here are macroeconomic discipline, a market economy, and openness to the world (at least in respect of trade and FDI). These are ideas that had long been regarded as orthodox so far as OECD countries are concerned, but there used to be a sort of global apartheid which claimed that developing countries came from a different universe which enabled them to benefit from (a) inflation (so as to reap the inflation tax and boost investment); (b) a leading role for the state in initiating industrialization; and (c) import substitution. The Washington Consensus said that this era of apartheid was over."

"I of course never intended my term to imply policies like capital account liberalization ..., monetarism, supply-side economics, or a minimal state (getting the state out of welfare provision and income redistribution), which I think of as the quintessentially neoliberal ideas ... But this is not how everyone has interpreted the idea."

"(1) Countries ought not to have adopted the Washington Consensus as an ideology ... for a policymaker to imagine that s/he can stop thinking and simply follow a set of policies that someone else has concocted is irresponsible. (2) Anyone offering a new set of policy guidelines ... has a duty to include a set of suggestions as to how crises can be avoided."

"A second reason that outcomes did not match the hopes of a decade ago is that reforms were incomplete ... For one thing, some of the 'first-generation reforms' were neglected (perhaps most conspicuously regarding the labor market, which has remained strongly dualistic everywhere, resulting in ever-growing informality) or incomplete (e.g. with regard to fiscal reform, where the massive budget deficits were eliminated but opportunity was not taken of the good times to run budget surpluses that would allow deficit spending in bad times). In addition, there is a whole generation of so-called 'second-generation reforms', involving the strengthening of institutions, that is necessary to allow full advantage to be taken of the first-generation reforms."

"And a third reason for disappointing performance is that the objective that underlay the Washington Consensus was excessively narrow. It consisted in accelerating growth without worsening income distribution... If one regards poverty as an affront to human dignity, then one will care not simply about the level and growth of income but about its distribution as well. That is why Nancy Birdsall and Augusto de la Torre (2001) authored a tract that aims to complement the

Washington Consensus by listing a set of ten reforms intended to improve income distribution without reducing growth.”

Williamson, John (2002): “Did the Washington Consensus Fail?”, Peterson Institute for International Economics, 6 Nov 2002

<https://www.piie.com/commentary/speeches-papers/did-washington-consensus-fail>

13. Post-Washington consensus

The Post-Washington Consensus emerged in the late 20th century as a revision of the Washington Consensus, more oriented towards promoting economic development. The Post-Washington Consensus advocated:

- public-private complementarity (it does not advocate minimizing the economic role of the public sector but rather balancing it with that of the private sector);
- adapting development strategies and institutions to the characteristics of the country (as opposed to ‘one-size-fits-all’ policies, valid for every place and time);
- the importance of poverty reduction and social services (education, health, etc.);
- the selection and design of appropriate institutions;
- paying attention to instruments and objectives beyond macroeconomic ones.

Stiglitz (2008) summarizes the post-consensus view of economic policy. His reflection is based on the idea that the private sector alone is not very effective in the early stages of economic development and, in general, does not generate rapid development. In his view, historical evidence suggests that development also requires appropriate economic policies.

Regarding the consensus, he argues that its bastardized version went so far as to turn means (privatization or liberalization, for example) into ends. The ineffectiveness of the consensus led to its expansion (Washington Consensus Plus) through additional policies aimed at reforming institutions and making them more capable of implementing consensus. Apparently, neither consensus nor its variations ended up working. Hence the need for ‘post-consensus’.

“If there is a consensus today about what strategies are most likely to promote the development of the poorest countries in the world, it is this: there is no consensus except that the Washington Consensus did not provide the answer. Its recipes were neither necessary nor sufficient for successful growth, though each of its policies made sense for particular countries at particular times.

“... the term ‘Washington Consensus’ ... has come to refer to development strategies that focus on privatization, liberalization, and macro stability (meaning, mostly, price stability). (The policies are often referred to as ‘neoliberal’ policies, because of the emphasis on liberalization, and because like nineteenth century liberalism, they emphasized the importance of a minimal role for the state). To most people, the Washington Consensus represents a set of policies predicated upon a strong faith ... in unfettered markets and aimed at reducing, or even minimizing, the role of government.”

“The post-Washington Consensus consensus goes further in detailing the nature of the failures of the Washington Consensus. There was a failure in understanding economic structures within developing countries, in focusing on too narrow a set of objectives, and on too limited a set of instruments.”

“The Limits of Market Fundamentalism: Theory

For instance, markets by themselves do not produce efficient outcomes when information is imperfect and markets are incomplete (true in all countries, but especially in developing countries) or when technology is changing as a result of R&D expenditures or learning, or more generally, when there is learning, for instance, about markets.

The intellectual foundations of the Washington Consensus had been badly eroded even before its doctrines became widely accepted. The fundamental theorems of welfare economics provided the ... conditions under which and the sense in which markets lead to efficient outcomes. Under these theorems, it turned out, markets were efficient only if capital markets were impossibly perfect ... There could be no externalities (no problems of air or water pollution), no public goods, no issues of learning, and no advances in technology that were the result either of learning or expenditures on R&D ... These problems are serious in any economy, but are at the heart of development. There are important externalities in these dynamic processes, which give rise to an important role for government. The successful East Asian countries recognized this role; the Washington Consensus policies did not. In short, *there is no theoretical underpinning to believe that in early stages of development, markets by themselves will lead to efficient outcomes.*

The Limits of Market Fundamentalism: History

Historical experience also provided little support to the belief that markets, by themselves, would lead to rapid development. While there is an active debate about the particular role of each of the industrial policies undertaken by each of the East Asian countries, there is a clear link between the policies and the successes ... And it is hard to conceive that Korea or Taiwan would have become the industrial players of today without having undertaken active industrial policies ... While firms in the rest of the world complain about a shortage of capital, the governments of East Asia provided capital to those firms that were proving their mettle by exporting, especially in technology sectors where there were likely spillovers to the rest of the economy.”

“If the success of East Asia suggests the desirability of a larger role for government in successful development than was traditionally emphasized in the Washington Consensus policies, the failures in sub-Saharan Africa and Latin America have reinforced the doubts about the Washington Consensus strategies... Growth in Latin America during the 1990s—the decade of reform—was just half of what it was in the 1960s and 1970s, the decades marked by the ‘failed’ policies of import substitution. Surely, there were problems with the import substitution strategy and it would have had to evolve, as it did in East Asia, into a strategy based more on exports. It was the debt crisis, however, and not the shortcomings of the development strategy that brought an end to the period of high growth.”

“In Africa, the costs of a simple-minded belief in the magic of the market were palpable and huge. For example, policy conditionalities imposed on the region’s countries too often focused much

too narrowly on liberalization of agricultural prices without adequate attention to the prerequisites to make such liberalization effective, for example, functioning markets for inputs and outputs, credit availability, and infrastructure (especially roads). The insistence on static comparative advantage foreclosed the kind of dynamic changes that underlay the successes in East Asia—had Korea stuck with its static comparative advantage, it would still be growing rice.”

“The fact that countries that followed the Washington Consensus policies grew more slowly than those that did not should, by itself, have been enough to lead countries to abandon these strategies.”

“A Balanced Role for Markets and Government

The political agenda was most evident in the Washington Consensus’ reliance on market fundamentalism—the belief that markets by themselves lead to economic efficiency, that economic policies should focus on efficiency, and that distributional concerns could and should be taken care of elsewhere in the political process. The policies pursued by the international financial institutions that came to be called ‘Washington Consensus policies’ or ‘neoliberalism’ entailed a much more circumscribed role for the state than was embraced by most of the East Asian countries, a set of policies that (in another simplification) came to be called the ‘development state.’

To be sure, governments can make matters worse. No doubt, the Washington Consensus represented, in part, a reaction to failures of the state in attempting to correct failures of the market. But the pendulum swung too far in the other direction and for too long. The Washington Consensus policies often assumed the worst about the nature and capability of *all* governments, and, in its quest to find a ‘one-size-fits-all’ policy, gave up on trying to improve governments, arguing that it was better simply to rely on markets by themselves.”

“The post-Washington Consensus consensus recognizes that there is a role for markets; ... recognizes too that there are government failures, just as there are market failures. But it believes that there are systematic ways to improve the performance of the government, just as there are systematic ways to improve markets. Governments and markets are seen as complementary, with government actually often playing an important role in addressing market failures, helping markets to work better.”

“The Washington Consensus failed so systematically largely because of its failure to understand development and developing countries; but its failure is also attributable to the fact that the objectives of development reflected in the Washington Consensus were too narrowly defined: the objective of policy should not have been limited to an increase in GDP ... but should have included sustainable increases in standards of living, as well as the promotion of democratic and equitable development.”

“Even worse than the formulation of too narrow a set of objectives was the fact that, too often, the IMF confused means with objectives—privatization and liberalization, for instance, became not means to an end, but ends in themselves. Sometimes privatization makes sense. But it matters how privatization is done; if done in the wrong way, growth can be reduced and societal welfare lowered. The pursuit of rapid privatization in the former Soviet Union contributed to the

enormous increase in inequality, compromising the legitimacy of private rights, at least those acquired in the privatization process, and perhaps even of the market system.”

The Evolving Washington Consensus

“The Washington Consensus thus focused on policies—policies of privatization, liberalization, and stability ... When these policies failed to produce the hoped-for results, the diagnosis changed, and it was argued that these policies needed to be supplemented with additional policies: the Washington Consensus Plus. What was added depended on the criticism that was being leveled and on the nature of the failure that was being recognized. When growth failed to materialize, ‘second generation reforms,’ including competition policies to accompany privatizations of natural monopolies, were added. When problems of equity were noted, the ‘Plus’ included female education or improved safety nets.”

“From the Washington Consensus Plus to the Washington Consensus Plus Plus

When all of these versions of the Washington Consensus Plus also failed to do the trick, a new layer of reforms was added: one had to go beyond projects and policies to the reform of institutions, including public institutions, and their governance.

In some ways, this represented a more fundamental change in perspectives, but in other ways it was a continuation of the same mindset. Government had long been viewed as the problem and markets as the solution. The questions should have been: what can we do to improve the efficiency of both markets and the government? ... Rather than asking these questions, the Washington Consensus had ignored market failures, viewed government as the problem, assumed that governments could not be reformed, and proposed massive scalebacks in government ... For instance, rather than asking if public pension systems could be strengthened, the Washington Consensus continued to focus its attention on privatization.”

“There is also a broad consensus that the international economic institutions have created unfair rules of the game (most evident in the case of trade...) and have foisted failed policies on developing countries that are dependent on these institutions and on donors for assistance.”

“Some Elements of an Emerging Consensus

In recent years, the economics profession has paid more attention to institutions, the incentives confronting the institutions and those within the institutions, and the relationships between governance, organization design, and organization behavior (...)

There are several more elements of a post-Washington Consensus. The first is that a post-Washington Consensus consensus cannot be arrived at simply within the confines of Washington. The development of a successful development strategy will have to involve those in the developing world in an important and meaningful way.

The second is that one-size-fits-all policies are doomed to fail. Policies that work in one country may not work in others. The contrast between the success of the East Asian economies, which did not follow the Washington Consensus, and those that did has become increasingly clear. However, the question remains, to what extent can the policies that worked so well in East Asia be transferred to other countries?

A third is that there are some areas in which economic science has not yet provided sufficient evidence, sufficiently strong theory, or empirical evidence, to result in a broad consensus about what countries should do.

There may be a broad consensus against 'excessive protectionism' that only serves the interests of special interests, but there is no consensus that rapid liberalization, especially in a country with high unemployment, will lead to faster economic growth. It may only lead to more unemployment (...) There is an emerging consensus: countries should be given room to experiment, to use their own judgment, and to explore what might work best for them.

A fourth is that successful development requires not the minimal role assigned to the state by the Washington Consensus, but a balanced role. The exact role may differ from country to country, depending on the stage of development of market and public institutions."

"A fifth point of consensus is that development requires strengthening of both market and state institutions. And a final point of consensus is that success is to be measured not just by an increase in GDP, but by a broader set of measures—including those that assess environmental and social sustainability."

Stiglitz, Joseph E. (2008): "Is there a Post-Washington Consensus?", ch. 4 in Serra, Narcís Serra; Joseph E. Stiglitz; eds.: *The Washington Consensus Reconsidered. Towards a New Global Governance*, Oxford University Press.

14. Beijing consensus

The term 'Beijing Consensus' was suggested by Joshua Cooper Ramo (2004) to designate the set of economic policy measures that are understood to have made the 'Chinese economic miracle' (sustained double-digit GDP growth) possible since Deng Xiaoping's presidency. Considered an alternative to the Washington Consensus, the Beijing Consensus (sometimes called 'the China model') advocates:

- state capitalism (or market authoritarianism);
- pragmatism in economic policy (choosing what works), based on innovation and experimentation;
- gradual economic reforms (not the 'shock therapies' associated with the Washington Consensus);
- export-led economic growth;
- the adoption of an authoritarian political regime.

Ramo (2004) describes and contextualizes the Beijing Consensus in the following terms, emphasizing the role of innovation, sustainability, equity and self-determination.

"China is marking a path for other nations around the world who are trying to figure out not simply how to develop their countries, but also how to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices in a world with a

single massively powerful centre of gravity. I call this new physics of power and development the Beijing Consensus.

It replaces the widely-discredited Washington Consensus (...) Washington-knows-best approach to telling other nations how to run themselves. The Washington Consensus was a hallmark of end-of-history arrogance; it left a trail of destroyed economies and bad feelings around the globe. China's new development approach is driven by a desire to have equitable, peaceful high-quality growth... It is flexible enough that it is barely classifiable as a doctrine. It does not believe in uniform solutions for every situation. It is defined by a ruthless willingness to innovate and experiment, by a lively defense of national borders and interests, and by the increasingly thoughtful accumulation of tools of asymmetric power projection."

"Though it is decidedly post-Deng Xiaoping in structure, the Beijing Consensus still holds tightly to his pragmatic idea that the best path for modernisation is one of 'groping for stones to cross the river,' instead of trying to make one-big, shock-therapy leap."

"The Beijing Consensus is as much about social change as economic change. It is about using economics and governance to improve society, an original goal of development economics that somehow got lost in the Washington-consensus driven 1990s. China's path to development and power is, of course, unrepeatable by any other nation. It also remains fraught with contradictions, tensions and pitfalls. Yet many elements of the country's rise have engaged the developing world."

"What is the Beijing Consensus? It is simply three theorems about how to organise the place of a developing country in the world ... The first theorem repositions the value of innovation. Rather than the 'old-physics' argument that developing countries must start development with trailing-edge technology (copper wires), it insists that on the necessity of bleeding-edge innovation (fiber optic) to create change that moves faster than the problems change creates. In physics terms, it is about using innovation to reduce the frictionlosses of reform.

The second Beijing Consensus theorem ... demands a development model where sustainability and equality become first considerations, not luxuries. Because Chinese society is an unstable stew of hope, ambition, fear, misinformation and politics only this kind of chaos-theory can provide meaningful organization. China's new approach to development stresses chaos management."

"Finally, the Beijing Consensus contains a theory of self-determination, one that stresses using leverage to move big, hegemonic powers that may be tempted to tread on your toes ... China's very emergence is remaking the international order. Chinese officials' interest in the country's Peaceful Rise is rooted in their worry that China's current acceleration to international power may shake the world too much, undermining the country's ability to grow and to maintain a stable internal and external balance."

"The only thing that can save China is knowledge. 'Innovation sustains the progress of a nation.'"

Ramo, Joshua Cooper (2004): *The Beijing Consensus*, Foreign Policy Centre.

"First, the Beijing Consensus refers to China's willingness to experiment and use innovation as a driver of progress."

“Using economics to improve society and enhance the quality of life is the second theorem of the Beijing Consensus. The centrality of GDP to traditional assessments of economic development levels is a notion rejected by China as the sole indicator of economic success. Instead, China’s policies are “people-focused” and measure development based on the quality of life of the population, sustainability and equality levels.”

“The third Beijing Consensus component is self-determination for China and other countries vis-à-vis the US. China emphasizes the need for developing countries to actively seek independence from outside pressure. While Ramo argues that China has thrived by pointedly ignoring the Washington Consensus, in fact, China adheres to eight of the ten elements of the Washington Consensus... Yet, China has convincingly demonstrated that deregulated, market-based decision making is not the only path to economic growth and integration in the global economy.”

<https://hcss.nl/report/issue-brief-no-2-the-beijing-consensus-an-alternative-approach-to-development/>

“The Chinese have refined the Asian growth model to develop a fast-growth, stable, ‘market-authoritarian’ governance that is admired in the world beyond the West and particularly among Third World leaders.”

“This is the basic idea of *market authoritarianism*. Beyond everything else that China sells to the world, the country functions as a global billboard for ‘going capitalist and staying autocratic.’ Thus, Beijing provides a compelling demonstration of how to liberalize economically without surrendering to liberal politics. In this respect, China presents the challenge of a new type of corporate state. China has, in effect, legitimized authoritarianism in our time.”

“As the government newspaper *Xinhua* reported, the excesses and failures of free-market fundamentalism had emphasized the superiority of the Chinese way of doing things under President Hu Jintao’s ‘scientific theory of development.’ This was the official name given to the ruling party’s policy of promoting welfare for the masses under the strict guidance of the central government. In other words, *state capitalism*.”

Halper, Stefan (2012): *The Beijing consensus. Legitimizing authoritarianism in our time*, Basic Books.

15. Beijing = Washington + pragmatism?

According to Yang Yao (2011), the Beijing Consensus can be interpreted as the Washington Consensus applied in the Chinese way: gradually, pragmatically and flexibly, experimenting with measures.

“In Joshua Ramo’s original formulation ... the BC [Beijing consensus] is defined by three principles, none of which necessarily requires strong government intervention:

- institutional innovation,
- equitable and sustainable development, and
- self-determination.

Over the last 30 years, the Chinese economy has moved progressively toward the market doctrines of neoclassical economics as summarized by John Williamson in his formulation of the WC.”

“What’s unique is the way China has applied the WC [Washington consensus]. Implementing the WC requires substantial institutional change and policy reform, whereas developing countries are usually characterized by rigid institutions that impede the function of the market. A big-bang approach to reforms is usually politically impractical or prohibitively costly. China’s gradual one-step-at-a-time approach has been more successful. So if there is a Beijing Consensus it refers to the way China shaped its institutional and policy reforms to make the Washington Consensus work in the Chinese context (...) The Chinese experience has yielded a number of lessons for other developing countries.”

“First, institutional efficacy is more important than institutional purity (...) The township and village enterprise (TVE) played a key role in China’s industrialization in the 1980s. TVEs were nominally owned by local governments but in effect managed by private entrepreneurs.”

“Second, government officials need to be motivated ... In China, government officials are motivated in two ways. First, promotion of government officials is strongly based on merit, especially their contributions to economic growth. This is quite different from performance evaluation based on accountability, which requires government officials to follow preset rules or be punished (...)

Second, public servants benefit directly from economic growth:

- those in more prosperous regions enjoy much higher salaries than those in less developed regions,
- different government departments can offer different levels of income and welfare, with departments that are directly involved in managing economic activities enjoying better treatment, and
- some provinces provide bonuses to officials in subnational governments for generating more tax revenue.”

“Fiscal decentralization, too, has helped motivate subnational government officials. As one of the most fiscally decentralized countries in the world, China’s subnational government revenue accounts for 45 percent of total government revenue and subnational spending accounts for 77 percent of total government spending. Decentralization turns local government officials into strong stakeholders in local economic growth. In addition, fiscal decentralization has created a constructive competition for resources among local governments, inducing them to improve services, local infrastructure, and other aspects of the business environment.”

“Third, insulation from special interests. Government officials should be immune to conflicts of interests and pressure from special interest groups which in many developing countries often derail institutional and policy reforms. Because Chinese society has been relatively equal, the government faces less pressure from powerful interest groups. The primary interest is in promoting long-run economic growth which helps ensure better incomes for society as a whole.”

“The Chinese experience has taken a different approach. It treats the government as made up of rational individuals who need to be motivated to work for the common good of society. Based on

this belief (...) institutional arrangements have been established to incentivize government officials to behave as if they were disinterested when they face conflicts of interests in society.

Although China's application of the Washington Consensus may be country specific, it contains a key principle that others can learn from: namely, a volitional pragmatism featuring constant experimentation with a defined objective to improve on the status quo. Nothing is taken as permanent or perfect: the future is always envisioned as better than today and incentives are crafted to make that vision a reality."

Yang Yao (2011): "Beijing Consensus or Washington Consensus. What Explains China's Economic Success?"

https://openknowledge.worldbank.org/bitstream/handle/10986/6098/deor_13_1_26.pdf?sequence=2&isAllowed=y

16. The Lee thesis

The claim known as the Lee Thesis (attributed to Singapore's Prime Minister Lee Kuan Yew, 1959–1990) holds that denying civil and political rights to citizens is acceptable if it promotes economic development and improves the well-being of the majority. Alternatively, the Lee Thesis argues that democracy is neither necessary nor effective for economic development.



The justification is that democracy generates social instability and/or political gridlock, preventing the implementation of reforms and policies that promote and stimulate development. An authoritarian government can approve and implement these reforms and policies free from the interference of pressure groups and the need to achieve short-term goals, thus achieving high levels of investment by applying appropriate industrial policies. Democracy diverts social and economic forces toward political confrontation and generates instability and tensions that do not favor the adoption of measures aimed at long-term objectives.

<https://thediplomat.com/2015/09/why-do-outsiders-care-about-singapores-elections/>

Knutsen, Carl Henrik (2009): "Investigating the Lee-thesis: ¿How bad is democracy for Asian economies?", artículo para "Den nasjonale fagkonferansen y statsvitenskap 2009".

"Lee Kuan Yew fervently argued that denying civil and political rights to people was acceptable if it promotes economic development and general wealth for the majority. That idea, subsequently dubbed 'the Lee Thesis,' has been fiercely debated since."

<https://thediplomat.com/2015/09/why-do-outsiders-care-about-singapores-elections/>

"Indonesia's democratic transition was a success, and now is in the third decade of democratic experience. But it has been backsliding, bringing the country to the edge of competitive authoritarianism. During the three-decades of Suharto's authoritarian rule, the economy grew at 7% annually, while the democratic Indonesia grew only at around 5%. Higher authoritarian growth

resonates with the so-called Lee thesis, popularised by the founding Prime Minister of Singapore, Lee Kuan Yew. It is argued that that development requires some restraints on democracy, famously put as a choice between two 'D's' - democracy and development or between democracy and discipline. Its proponents hold the view that poor developing countries are not fit for democracy.

The Lee thesis is supported by high growth phases under the authoritarian rules of Singapore under Lee himself, Mahathir's Malaysia, Park Chung-hee's South Korea, and Chiang Kai-shek's Taiwan. Authoritarian China's phenomenal growth since the early 1990s has also provided credence to the thesis. Thus, temptations to authoritarianism can also be seen in other developing Asian and African countries. However, it is argued that democratic growth is more stable and more resilient to crises. AK Sen argued that it is wrong to ask whether a country is fit for democracy; rather a country becomes fit through democracy. Entering the second half of the third decade of its current democratic experience, Indonesia will have to decide whether to stay with the path of democratic growth or returning to an authoritarian path."

<https://indonesia.crawford.anu.edu.au/news-events/events/22487/democracy-andor-development-reflecting-lee-thesis-indonesia>

"Amartya Sen claims in *Development as Freedom* that democracy is the solution to helping poor economies, but the Lee thesis states otherwise. The thesis states that authoritarianism eradicates poverty because of a focus on economic development rather than freedom."

"Some opponents of democracy in developing countries echo the 'Lee thesis,' named for former Prime Minister of Singapore, Lee Kuan Yew. It states that authoritarian regimes are better at enriching poor nations than democracies.

Proponents of the Lee thesis attribute this to an authoritarian focus on economic development rather than on freedom, which is seen as unnecessary to eradicating poverty. For example, Singapore, South Korea, and China achieved higher growth while under authoritarian governments than did democracies like India, Costa Rica, and Jamaica.

However, Sen states that the Lee thesis is based on faulty evidence. Empirical studies reveal there's no relationship between authoritarianism and economic growth. By contrast, democratically-oriented policies are proven growth drivers. Examination of the 'East Asian Miracle' economies (such as Japan, Singapore, Taiwan, and South Korea), which achieved rapid economic growth in the 20th century, suggests the following policies are most helpful:

- Openness to competition
- Use of global markets
- High literacy rates
- Land reforms
- Incentives for industrialization, research and development, and exports

Sen argues all of these helpful policies are compatible with democratic rights. Additionally, many authoritarian regimes that have failed to adopt these policies have remained poor. Therefore, the assertion that authoritarianism is either necessary or sufficient to achieve economic growth is false.”

<https://www.shortform.com/blog/lee-thesis/>

Knutsen, Carl Henrik (2010): “Investigating the Lee Thesis: How Bad is Democracy for Asian Economies?”, *European Political Science Review* 2 (3): 451–473.

17. Lipset’s thesis

Lipset’s thesis (formulated in an article with over 12,000 citations) states that:

- democracy is a result of economic development and
- the more developed a country, the more likely it is to be democratic.

Singapore was a counterexample to this thesis: in 1990 it was the only high-income (non-oil-exporting) economy that was not a democracy (while Taiwan and South Korea were undergoing the transition).

Lipset, Seymour Lipset (1959): “Some Social Requisites of Democracy: Economic Development and Political Legitimacy”, *American Political Science Review* 53 (març), 69-105.

Lipset, Seymour Martin (1994): “The Social Requisites of Democracy Revisited” (1993 Presidential Address, American Sociological Association), *American Sociological Review* 59 (febrer), 1-22.

“Seymour M. Lipset dubbed economic development a ‘social requisite to democracy,’ considering factors such as national wealth, a large degree of industrialization, and high levels of education to be necessary fertilizers to prepare a breeding ground for democracy... He famously posited that ‘the more well-to-do a nation, the greater the chances that it will sustain democracy.’”

Banerjee, Anwesha (2013): “Revisions to Lipset’s Economic Theory of Democratic Development. India as a case study”

https://journals.library.cornell.edu/tmpfiles/CIAR_6_1_6.pdf

18. Seoul development consensus

The Seoul Development Consensus is a set of principles adopted by the G20 members in 2010 that express a pragmatic vision of development (economic development was presented as a priority of the G20).

According to Wikipedia (2025):

“The Seoul Development Consensus for Shared Growth is a set of principles and guidelines set up to assist the G20 nations and other global actors in working collaboratively with less developed countries in order to boost their economic growth and to achieve the UN’s Millennium Development Goals (...). In contrast with the older Washington Consensus, the Seoul Consensus allows a larger role for state intervention. Rather than seeking to impose a uniform ‘top down’ solution, it postulates

that solutions should be tailored to the requirements of individual developing nations, with the developing countries themselves taking the lead in designing packages of reforms and policies best suited to their needs.”

Wikipedia (2025): “Seoul Development Consensus”

https://en.wikipedia.org/wiki/Seoul_Development_Consensus

“... the G20 has the opportunity to contribute to the reconstruction of the world economy in a form conducive to strong, sustainable, inclusive and resilient growth. Through the Seoul Development Consensus for Shared Growth, we seek to add value to and complement existing development commitments (...) We recognize as a crucial part of this exercise that we need to enhance the role of developing countries and low income countries (LICs) in particular, for the following reasons:

- First, because for prosperity to be sustained it must be shared.
- Second, because we acknowledge that the impact of the recent crisis demonstrated a global interconnectedness that is disproportionately affecting the most vulnerable in the poorest countries. It has been estimated that, as a result of the recent crisis, an additional 64 million people will be living in extreme poverty (i.e., living on less than USD 1.25 a day) by the end of 2010. We therefore have a responsibility to fulfill.
- Third, as the premier forum for our international economic cooperation, because the G20 has a role to play, complementing the efforts of aid donors, the UN system, multilateral development banks (MDBs) and other agencies, in assisting developing countries, particularly LICs, achieve the Millennium Development Goals (MDGs). Our role must relate to our mandate on global economic cooperation and recognize that consistently high levels of inclusive growth in developing countries, and LICs in particular, are critically necessary, if not sufficient, for the eradication of extreme poverty.
- Fourth, because the rest of the global economy, in its quest for diversifying the sources of global demand and destinations for investing surpluses, needs developing countries and LICs to become new poles of global growth – just as fast growing emerging markets have become in the recent past. Our overarching objective of helping LICs improve and maintain the levels and quality of growth, thereby reducing poverty, improving human rights and creating decent jobs, requires strengthening the relationships among high, middle and low income countries. This entails promoting sustainable economic, social and environmental development; honoring equity in the partnerships that exist; building stronger and more effective partnerships among advanced countries, emerging countries and LICs; engaging the private sector and civil society; and refocusing our priorities and efforts to remove the bottlenecks for LIC growth. We further believe there is no ‘one-size-fits-all’ formula for development success and that developing countries must take the lead in designing and implementing development strategies tailored to their individual needs and circumstances.”

“G20 Development Principles

We therefore commit ourselves to a Multi-Year Action Plan to achieve these objectives. This Plan will be based on the following principles (...)

1. **Focus on economic growth.** (...) Actions and policies should have the capacity to significantly improve the prospects for inclusive, sustainable and resilient growth above business as usual.
2. **Global development partnership.** Engage developing countries, particularly LICs, as equal partners, respecting their national ownership and recognizing that the most important determinant of successful development is a country's own development policy (...)
3. **Global or regional systemic issues.** (...)
4. **Private sector participation.** Promote private sector involvement and innovation, recognizing the unique role of the private sector as a rich source of development knowledge, technology and job creation (...)
5. **Complementarity.** Differentiate, yet complement existing development efforts, avoiding duplication (...)
6. **Outcome orientation.** Focus on feasible, practical and accountable measures to address clearly articulated problems that are serious blockages to significantly improving growth prospects for developing countries."

<https://g7g20-documents.org/database/document/2010-g20-korea-leaders-leaders-annexes-annex-i-to-seoul-summit-document-seoul-development-consensus-for-shared-growth>

19. Mumbai consensus

The 'Mumbai Consensus' is an expression created to designate India's ('people-based') model of economic development and was first used in 2010 by Lawrence Summers, senior economic advisor to President Barack Obama.

"... in the long sweep of history, the biggest story from our era will be what has happened in the developing world, in the world's emerging markets, especially here in Asia.

Consider this: Economic historians have calculated that if you compare living standards in Athens at the time of Pericles and living standards in London in 1800, they changed over those 2200 years at most by 75%. That's a growth rate far less than one tenth of one percent per year.

They called it the Industrial Revolution because for the first time in all of human history, economic growth started at a rate where you could see the difference in living standards at the end of a human lifespan relative to the beginning of a human lifespan."

"Think about what is happening today in India, China, or a number of other emerging countries – countries that between them have 40% of the population of our planet.

Living standards are rising at a rate between 5 and 7 percent a year, a rate at which they double within a long decade. A rate at which they increase between 30 and 100 fold within a single human life span.

In the economic history of the last millennium that is an event that ranks only with the Renaissance and the Industrial Revolution."

“India, which will become the world’s most populous nation, will have much to say in this story. The tremendous economic energy being unleashed by India today, making one of the world’s top three economies, will only continue to grow when, a generation from now, it also has the world’s largest work force.”

“And perhaps ... in 2040, the discussion will be less about the Washington Consensus or the Beijing Consensus, than about the Mumbai Consensus – a third way not based on ideas of laissez-faire capitalism that have proven obsolete or ideas of authoritarian capitalism that ultimately will prove not to be enduringly successful.

Instead, a Mumbai Consensus based on the idea of a democratic developmental state, driven not by a mercantilist emphasis on exports, but a people-centered emphasis on growing levels of consumptions and a widening middle class.

A consensus based globally not on the idea that competitiveness was in service of a nation trying to win a zero sum game, but rather on the idea that through international integration, nations could diversify, pursue their strengths, and realize together the benefits of larger global markets.”

“Your country, like my country, faces formidable challenges in the years ahead.

- Challenges of ensuring that government by the people is effective government for the people.
- Challenges of maintaining faith and trust in public institutions and assuring that public institutions are worthy of that faith and trust.
- Challenges of creating prosperity that does not just mean the success of a thin elite at the top, but opportunity for an every growing middle class.
- Challenges of ensuring the availability of jobs that provide dignity, opportunity, and better lives for children and parents and citizens.”

“But ultimately in the relationships between democratic nations, between broad pluralistic societies, it is not the government to government agreements that will make the largest difference.

- It is the ties that are formed when students from one country study in another. Ties that I hope will increase in scale dramatically over the next decade.
- It is the ties that are formed when firms from one country invest in another country. Flows that, to our mutual benefit, are becoming increasingly reciprocal between the United States and India.
- It is the ties that are formed when professionals from one country do business, learn, share, with professionals for another country.
- And it is the ties that are formed by the institutions that are undergird democracy.”

Summers, Lawrence H. (2010): “India and the Global Economy”, Remarks at The Asia Society, Mumbai, India, 15 Oct 2010

<http://www.whitehouse.gov/administration/eop/nec/speeches/india-global-economy>

20. Berlin Summit Declaration

The Berlin Summit Declaration ('The Berlin Declaration') of May 29, 2024 (the result of a meeting of a group of economists held in parallel to the Forum for a New Economy) expresses the need to move economic policy away from the influence of the Washington Consensus and consolidate the role of the public sector in multiple directions: proactive industrial policies, promoting quality jobs, regulating globalization, reducing inequalities, curbing market power, addressing global problems such as global warming and the difficulty of less economically developed countries in boosting their development...

"Paradigm shifts in mainstream economic thinking usually occur during crises that require new responses. This happened after the onset of stagflation (low economic growth and high inflation) in developed countries during the 1970s. And it may be happening again now, as liberal democracies face a wave of popular distrust in their ability to serve citizens and respond to the multiple crises that threaten our future: climate change, intolerable inequality, major global conflicts."

"To counter dangerous populist policies that exploit voter discontent and prevent serious harm to humanity and the planet, we must urgently address the root causes of citizen discontent."

"With this imperative in mind, many leading economists and practitioners gathered in Berlin at the end of May for a summit organized by the Forum for the New Economy. As a result of the Summit 'Restore Citizens' Trust', a new understanding emerged that could replace the market-liberal 'Washington Consensus', which for forty years prioritized free trade and capital movement, deregulation, privatization and other market dogmas.

The Berlin Declaration, published after the meeting, was signed by dozens of leading scientists, including Nobel laureate Angus Deaton, Mariana Mazzucato, Olivier Blanchard, Tom Piketty, Izabela Weber, Branko Milanović and many others.

In recent years, the 'Washington Consensus' has already begun to crumble under a deluge of studies confirming the growth of inequality in income and wealth, and citing the reasons for that growth. In addition, these studies have provided new insight into the role of industrial policy and climate change strategy. Recent crises, not to mention the danger of losing the battle for liberal democracy, have encouraged efforts to use all this research to develop a new general framework of measures that will help restore citizens' trust.

The Berlin Declaration underscores the abundant evidence that people's mistrust is largely driven by a general sense of real or perceived loss of control over their livelihoods and the trajectory of social change. This sense of helplessness has been fueled by shocks caused by technological change and globalization, and exacerbated by climate change, artificial intelligence, the latest rise in inflation and fiscal austerity."

"In order to restore people's trust, policies are needed that restore faith in their and their government's ability to effectively respond to the real problems they face. This means that policy should focus on creating shared prosperity and good jobs, including policies that proactively

address immediate regional disruptions by supporting new industries and channeling innovation to create wealth for the many.

There is equally strong support for designing a healthier form of globalization, for coordinating climate policies, and for establishing national control over key strategic interests. Underlying these priorities is broad agreement that income and wealth inequality must be reduced."

"There is also widespread acceptance of the need to provide developing countries with the financial and technological resources they need to transition to climate resilience.

To summarize, there is a new general understanding that a new balance needs to be found between markets and collective action."

"... the purpose of the declaration is to state principles that are clearly distinct from previous orthodoxy and create a mandate to refine political concepts for practical application. The answer to the question of how to properly implement industrial policy depends on the conditions in a particular country and joint international efforts. The same applies to the answer to the question of how governments could encourage climate-friendly behavior. Questions remain open: how to reconfigure globalization and how to most effectively reduce economic inequality.

It is vital, however, to reach consensus on the principles that should guide policymakers. Recognizing that markets alone will not stop climate change or reduce wealth inequality is the first step toward developing the best policies to effectively respond to the real challenges we face."

"In order to preempt the populists, we need a new political consensus focused on solving the causes of citizens' mistrust and not on its symptoms ... To restore the trust of the citizens, we need a plan for the people."

Rodrik, Dani; Laura Tyson; Thomas Fricke (2024): "From the Washington Consensus to the Berlin Declaration", Project Syndicate, 27 Jun 2024

<https://www.project-syndicate.org/commentary/washington-consensus-gives-way-to-berlin-declaration-by-dani-rodrik-et-al-2024-06>

<https://en.vijesti.me/column/716807/from-the-Washington-Consensus-to-the-Berlin-Declaration>

"The Berlin Summit Declaration

Liberal democracies are today confronted with a wave of popular distrust in their ability to serve the majority of their citizens and solve the multiple crises that threaten our future. This threatens to lead us into a world of dangerous populist policies exploiting the anger without addressing the real risks, ranging from climate change to unbearable inequalities, or major global conflicts. To avert major damages to humanity and the planet, we must urgently get to the root causes of people's resentment.

There is ample evidence today that this distrust is not only, but to a large extent, driven by the widely shared experience of a real or perceived loss of control over one's own livelihood and the trajectory of societal changes. This sense of powerlessness has been triggered by shocks stemming from globalization and technological shifts, now amplified by climate change, AI and the inflation

shock. And, decades of poorly managed globalization, overconfidence in the self-regulation of markets and austerity have hollowed out the ability of governments to respond to such crises effectively.

Winning back the people's trust means rebuilding these capacities. We do not pretend to have definitive answers. However, it seems crucial to re-design or strengthen policies based on some of the fundamental lessons we can draw from what has caused such levels of distrust. These suggest that we need to:

- reorient our policies and institutions from targeting economic efficiency above all to focusing on the creation of shared prosperity and secure quality jobs;
- develop industrial policies to proactively address imminent regional disruptions by supporting new industries and direct innovation toward wealth-creation for the many;
- make sure industrial strategy is less about giving out subsidies and loans to sectors to stay in place and more about helping those invest and innovate towards achieving goals like net zero;
- design a healthier form of globalization that balances the advantages of free trade against the need to protect the vulnerable and coordinate climate policies while allowing for national control over crucial strategic interests;
- address income and wealth inequalities that are reinforced via inheritance and financial market automatism, be it by strengthening the power of poorly paid, appropriately taxing high incomes and wealth, or securing less unequal initial conditions through instruments like a social inheritance;
- redesign climate policies combining reasonable carbon pricing with strong positive incentives to reduce carbon emissions and ambitious infrastructure investment;
- ensure developing nations have the financial and technological resources they need to embark on the climate transition and the mitigation and adaptation measures without compromising their prospects;
- generally establish a new balance between markets and collective action, avoiding self-defeating austerity while investing in an effective innovative state;
- reduce market power in highly concentrated markets.

We are living through a critical period. Markets on their own will neither stop climate change nor lead to a less unequal distribution of wealth. Trickle-down has failed. We now face a choice between a conflictual protectionist backlash and a new suite of policies that are responsive to people's concerns. There is a whole body of groundbreaking research on how to design new industrial policies, good jobs, better global governance and modern climate policies for all. It is now critical to develop them further and put them into practice. What is needed is a new political consensus addressing the deep drivers of people's distrust instead of merely focusing on the symptoms, or falling into the trap of populists who pretend to have simple answers.

As the danger of armed conflicts around the world has risen due to diverging geo-political interests, liberal democracies will, as a prerequisite, need to demonstrate their ability to both defend their

values and defuse direct hostilities, ultimately open the path to sustainable peace, as well as diminish the tensions between the US and China.

Any attempt to durably get citizens and their governments back into the driver's seat has the potential to not only promote wellbeing for the many. It will help to once again foster trust in the ability of our societies to solve crises and secure a better future. We need an agenda for the people to win back the people. There is no time to waste.

May 2024"

"Total signatories [577 on 30 May 2025; 596 on 14 October 2025]"

<https://newforum.org/en/the-berlin-summit-declaration-winning-back-the-people/>

21. Old Brussels consensus

Traditionally, and more or less implicitly, a common perception (the Brussels Consensus) has developed within the European Union's governing bodies regarding the most effective menu of economic policy measures for achieving the Union's economic progress and growth. This menu is similar to that of the Washington Consensus. The main components of this menu are:

- austere fiscal policy
- tight monetary policy
- limited public intervention, although a public social protection system is established
- promotion of free trade in global markets
- promotion of competition in the internal market.

Implicit in the Brussels Consensus is the expectation that other major global actors will adopt a similar economic policy strategy; in particular, respect for the global rules governing the functioning of global markets and the avoidance of using geopolitical influence for their own benefit. The limitations of the Brussels Consensus become evident when other global actors (the US and China) challenge the rules-based international order or clash with each other (challenging and clashing that negatively affect the EU, whose strategy is respect for international rules and multilateral agreement).

"Europe's growth in recent decades has been driven by its economic integration and the significant opening of the world economy. This expansion accelerated in 2001 with the accession of China to the World Trade Organization (WTO) and the global trade and growth shock it provoked."

"Despite its remarkable success, Europe's economic enlargement also brought challenges, including the massive displacement of industrial and manufacturing jobs inside and outside the continent. Still, Europe held the promise of economic growth and progress, grounded in a consensus that backed free and fair competition in the internal market, conservative fiscal policy, monetary rigour, limited state interventionism, and the promotion of free trade.

Now, this economic consensus is unravelling. Although domestic competition policy has been fairly effective in Europe, its lapses in the US as well as trade liberalisation have given rise to globally

dominant corporate giants that have compromised free and fair competition, particularly in the tech space.

However, there are two corrections underway. The Biden administration championed a Neo-Brandeisian policy (hostile to excessively centralised private power) which amounts to a form of alignment with EU competition policy. Meanwhile, as the EU has committed to strengthening Europe's strategic autonomy and competitive edge in global markets that remain open because of trade policy, its competition regulations appear to be growing more tolerant of the dominant position carved out by large firms."

"The economic consensus is also shifting internationally with the constant decline of the WTO as China and – more recently – the US have turned hostile towards the organisation ... The last two governments in Washington have confirmed and cemented this trend, with Donald Trump piling tariffs and Joe Biden shunning the WTO completely with the green subsidy scheme of the Inflation Reduction Act (IRA).

This new reality has had a considerable impact on competition policy in Europe. In the absence of a real lever to activate industrial policy in the same way as the US or China, Europe is opting for the time being to considerably loosen its competition policy. Notably, there are now larger exemptions for state aid, ... competition policy is increasingly shaped by the dynamics of global markets in which EU companies operate."

"For its part, China managed to achieve its impressive economic expansion in the last 25 years while shunning the constraints of the WTO (via forced technology transfer, circumventing the protection provided by intellectual property rights) and using its loopholes (to grant subsidies). By the time the US and Europe awakened to the damage caused by Beijing and decided denying China, under WTO rules, the status of market economy in 2017 (therefore maintaining the very high anti-dumping duties which could potentially be imposed on Chinese goods), it was too little, too late to decisively tip the balance and meaningfully curb China's rise.

The WTO's inability to overcome the formidable challenge to its authority posed by its two main powerhouses, coupled with its failure to advance its agenda and conclude negotiations between WTO contracting parties, accelerated the irrelevance of the institution. For the first time in more than 70 years, the future of trade will not be written in Geneva but in Washington DC, Beijing, and Brussels. This paradigmatic change has profound consequences for Europe that are yet to be fully appreciated."

"Europe's new dilemma

The EU legal order was largely built on the assumption that the bloc would play a leading role in a stable, liberal, and rules-based economic system ... This framework served the mercantile interests of the EU well, eventually leading it to record a constant and growing trade surplus with the rest of the world between 2000 and 2018. It was also combined with an aggressive competition policy that largely ignored global markets and focused somewhat narrowly on consumer welfare.

The flip side of the EU's total embrace of globalisation (both in trade and finance) has been a dramatic increase in the bloc's exposure to the two major economic players ... In fact, the EU's competition

regulations proved largely powerless to curb the corporate imperialism of American big tech firms and equally toothless in competing with China in the manufacturing and industrial space. The EU's significant financial exposure to the US can best be observed in its reliance on the dollar and the need for its financial institutions to raise capital in the US. Moreover, the collapse of private transatlantic finance in 2008 and the need for dollar liquidity support highlighted the acute European reliance on the US Federal Reserve System's role as a global lender of last resort. On top of that, the Covid-19 pandemic revealed the EU's structural dependencies on the US across many critical supply chains.

Brussels is also facing considerable commercial and industrial exposure to China, which has become the first market for EU goods while also emerging as the preferred supplier of goods to European companies and consumers."

"While dependence on the dollar has somewhat declined since the global financial crisis, the exposure to China has kept growing (...) The EU is virtually at the mercy of US retaliation in the field of trade and finance and Chinese retaliation in commercial matters.

This complex situation creates important tensions between the EU's internal and external policies. While the EU has a comprehensive framework to regulate the delivery of subsidies within its internal market, the framework at the international level has historically been deficient as the WTO's competence is minimal."

"In this context, the EU's recent adoption of the Foreign Subsidies Regulation should be seen as an acknowledgement of the bloc's failure to reach any achievements on subsidy control within the framework of the WTO, choosing instead to pursue a unilateral road. It is also a clear sign of trade policy and competition finally coming together and being somewhat internalised."

"The negative impact of the growing competition between the US and China on the EU is exacerbated by the securitisation of trade policy. As the US increasingly expands the list of economic issues falling under the national security exception to trade, it undermines transatlantic cooperation and forces the EU to consider its own options. The most telling example of this escalation is the steel and aluminium tariffs introduced by the Trump Administration in 2018. Since then, the EU has been compelled to expand its toolkit considerably to be able to respond to a more hostile trade environment."

"However, progress in this field has also been hampered by the fact that national security remains a national prerogative in Europe. Export controls and inward and outward investment screening remain national competencies and most member states are wary of harmonising their positions at the European level ... Consequently, the more national security becomes a central part of trade policy, the less the EU framework and consensus will be fit for the purpose."

"Trade meets climate policy

The growing fragmentation of the international economic order is a huge liability for a player like the EU which aims to control climate change via its economic agenda. Historically, the EU has been a committed and active player at the international level when it comes to supporting and participating in environmental and climate treaties, believing that international cooperation is

crucial for effective global climate policy. Brussels believed that a combination of the rule of law, international collaboration, and market mechanisms – particularly through carbon taxation and pricing models – was the backbone of the climate and energy transitions. This was the foundational intellectual basis for the 2015 Paris Climate Conference.

Divergences first came to the fore with the 1997 Kyoto Protocol. The US signed but did not ratify the protocol, while China was actively involved in the negotiation process but was not obligated to reduce emissions under the treaty because it was classified as a developing country. Although the Paris Agreement was an impressive step in the right direction, it failed to sufficiently address the perceived risks of divergent implementations. In addition, even though the Paris Agreement entails binding procedural requirements, the actual targets and measures that countries committed to are not legally enforceable.”

“... the European hope of a gradual expansion of carbon pricing and international taxing is unlikely to materialise ... Washington has been trying to undermine Europe’s efforts to introduce a carbon border adjustment mechanism (CBAM) for years. The Biden administration has even threatened to restore steel and aluminium tariffs if Brussels imposes a carbon levy on energy-intensive American imports.”

“A new trade policy is emerging

... A new trade policy is emerging in Europe. It will inevitably have to be more aggressive at levelling the playing field vis-à-vis China to offset its dumping capacity and subsidies. The very recent decision of the Commission to levy tariffs up to 38 per cent on Chinese electric vehicles is a testament to this new approach ... The EU will have to be able to respond to more friction from the US which has increasingly invoked national security concerns in its trade and competition decisions. Additionally, Brussels needs to revisit existing trade agreements to expand climate and social clauses, as seen in the free trade agreements with Singapore and Canada, even as recent discussions around Mercosur have highlighted future challenges. Finally, the EU must decide how to position itself in the global race to secure critical raw materials.”

“These choices will all have profound geopolitical and economic consequences for Europe. They will not only redefine our relationships with the US and China but will determine our ties with the Global South, where trade openness has long been a critical bargaining chip. Europe is at a crossroads for its economic, climate, and trade policy, yet does not fully grasp the extent to which these changes could upset its relationship with the world.”

Segoin, Daniel; Shahin Vallée (2024): “The Brussels Economic Consensus is Shifting”, 03 Oct 2024
<https://www.greeneuropeanjournal.eu/the-brussels-economic-consensus-is-shifting/>

22. New Brussels consensus

Bernard Guetta (2020) suggests defining a new Brussels Consensus in the EU with six basic features:

- a common industrial policy (related to crucial technological developments, such as AI);
- the restoration of industrial sovereignty;
- a common defense policy and diplomacy;

- harmonization of tax and social protection systems;
- shared public debt.

“Now, that France, Germany, the European Commission and so many of the Union’s capitals have embraced the principles of joint borrowing and the pooling of investments to deal with this crisis, now that all that remains is to negotiate a compromise with the States that are most committed to balanced budgets in order to achieve unanimity and take action, what is the next step?”

“... there is fortunately no ruling party or dominant party in Europe, not even a dominant party in limbo. There are left-wings, right-wings, Greens and centrists who do not share the same ambitions. This diversity is a political richness that is certainly not going to disappear. It is actually an asset which we would be very wrong to deprive ourselves of (...) We all feel a need to know what unites us and what separates us in the political landscape shaped by the effects of this pandemic.”

“The war had left us with a Europe to rebuild and to defend against the USSR. The post-war consensus on social protection, industrial policies and the common market emerged from this need. The success of the “Glorious Thirty”, together with the rise in the price of raw materials and the gradual implosion of the Soviet system had opened the way to a new era. For some forty years, from the first election of Margaret Thatcher to the first deaths of Wuhan, the ‘Washington Consensus’ defined the policies of the five continents proclaiming that the State was not the solution but the problem, that too much taxation was killing taxation, and that the development of free trade was bringing democracy with it.

Like Brezhnev’s USSR, this neo-liberalism had shown signs of running out of steam long before collapsing, but in the last three months it happened. The State is once again becoming the solution. Public debt is no longer the legacy we should not leave to our children but the inevitable tool for saving their jobs. We are entering a third era, the most glaring sign of which is Germany’s abandonment of its *schwarze Null*, its demand for a zero deficit.”

“... as useless and futile as it would be to aspire to give a common programme to the major European parties, all the more do we need to define this ‘Brussels Consensus’ which now replaces the Washington consensus and could well win the world as Thatcherism had done yesterday.

So let’s read, let’s look, let’s listen. Not everyone has the same conception of the pace at which we should move to a new industrial model, but apart from vague and negligible differences, everyone agrees on the need for a green transition that could limit global warming. This first point of consensus is so real that, even before the pandemic, all the Commission’s proposals were based on its ‘Green Deal’, its ‘Green Pact’, whose idea the Parliament had promoted by an overwhelming majority.

The second point of the Brussels Consensus is that we must focus our resources on a concerted effort in industrial research and modernisation, in other words on a common industrial policy aimed, in this case, at not missing out on the technological turning point brought about by the artificial intelligence.

The third point of this consensus is that we can no longer rely on an international division of labour in strategic areas and that the European Union must aim, as China and the United States are doing, for industrial sovereignty that would protect it from external dependence.

The fourth point of this consensus is that the Union must, like the United States and China, have the means of its political sovereignty, in other words a common defence and diplomacy. In black and white in the Franco-German proposals and between the lines in the Commission's proposals, the fifth point of this consensus is that the Member States of the Union must not delay any longer in harmonising their tax and social protection systems.

As for the sixth point of this consensus, it is – as we know – that the Union must no longer refuse to take on joint debt when it is about pooling debts but about investing in the future, that the Thatcherian page should be turned and another one opened: that of the Brussels Consensus.

Now we see it clearly. As much as there is convergence on these six points, there are also differences of opinion on what should be the Common Defence, the Green deal, industrial policies or relations with China or Russia like. There is no dominant party in the Union, but the consensus that is forming is so essential, innovative and forward-looking that it is urgent to tell Europeans that they are not getting lost in the fog but are, on the contrary, moving towards a common horizon and that the Brussels Consensus brings together between two-thirds and four-fifths of their political forces – a more than qualified majority.”

Guetta, Bernard (2020): “The Brussels consensus”, 02 Jun 2020

<https://www.bernard-guetta.eu/2020/06/02/the-brussels-consensus/?lang=en>