

A new economic consensus?

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Context and motivation

- 1** 35 years since the Washington Consensus
- 2** The world has changed a great deal
- 3** Economics has changed a great deal
- 4** We know something about that works and what does not in the WC
- 5** Policymakers desperately need a new playbook

The London Consensus



ECONOMIC PRINCIPLES
FOR THE 21st CENTURY

LSE Press

EDITED BY TIM BESLEY, IRENE BUCELLI
AND ANDRÉS VELASCO

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Opinion **Free Lunch**

The quest for an anti-Trumpian economic consensus

A successful alternative to Trumponomics would have to work economically and politically, and in a sustained fashion

MARTIN SANDBU

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Under President Donald Trump's administration, economic openness is being thrown out and bilateral but inconstant dealmaking is replacing multilateral rules © Alex Brandon/AP

Martin Sandbu

Why a consensus (or paradigm)?

- 1** Hirschman (1970): “The search for paradigms as a hindrance to understanding”
- 2** Rodrik (2023): “Beware of economists bearing paradigms”
- 3** A paradigm can easily become ideological
- 4** A “consensus” or “paradigm” can easily become a lightning rod
- 5** The recipient of various epithets

For at least four reasons

- 1** The importance of identifying what does not work
- 2** The difference between principles and policies
- 3** The usefulness of advice that comes in conditional propositions
- 4** The importance of narratives in political and economic debates

The 5 principles

- 1** It's not just the money: well-being is key
- 2** Growth remains key, but achieving it is more complex than anticipated
- 3** Build resilience: government as insurer
- 4** There's no good economics without good politics
- 5** A capable state is the complement for everything

It's not just the money: well-being is key

What you produce, how you produce it, and where you produce it, matters

- 1 Starting with J.S. Mill: separation of efficiency and distribution
- 2 Washington Consensus adopted this principle... but it is problematic
- 3 Why? In many rich countries, limits to taxation are near, especially when political feasibility is considered.
- 4 Why? Need to consider broader conceptions of human welfare. Status and dignity matter beyond material considerations

Growth remains key, but achieving it is more complex than anticipated

- 1** Washington Consensus was mostly about static efficiency: “getting prices right”
- 2** Schumpeterian growth paradigm: getting prices right is neither a necessary nor a sufficient condition for growth
- 3** Rents encourage innovation and growth, but excessively large rents can discourage entry, innovation and growth
- 4** More generally: growth requires an eco-system for innovation, adoption and adaptation
- 5** Securing property rights, contract enforcement, internalization of externalities, correction of coordination failures, promotion of competition, provision of sector-specific public goods, and so on.

Build resilience: government as insurer

- 1** The WC only worried about one kind of volatility: macro volatility caused by unsound monetary and fiscal policies
- 2** That is important, but not the only kind of relevant volatility. There are many other kinds to worry about
- 3** For example: uninsurable shocks, like losing your job during a recession or a pandemic
- 4** This volatility is also a source of anxiety and stress, with consequences for health and well-being
- 5** Such volatility can have political consequences: insecurity may draw citizens towards populist alternatives

There's no good economics without good politics

- 1** There is no single mention of the political economy of reform in Williamson's original manifesto
- 2** Underlying premise: fix the economy and the politics will get sorted along the way
- 3** But not only do good policies require good politics, especially in democratic societies
- 4** Bad economic policy creates political problems, creating the possibility of a vicious cycle

A capable state: the complement for everything

- 1** Because the state was supposed to do little, state capacity was not a central concern of the WC
- 2** But today we understand that even basic state tasks, like teaching to read or collecting taxes, require state capacity
- 3** State capacity does not fall from the sky: it must be built.
- 4** Needs to evolve with policy challenges, e.g. combatting climate change or responding to economic insecurity

Possible applications

- 1** Requirements for an active fiscal policy
- 2** Credit market development
- 3** Productive development policies
- 4** Directing technological progress
- 5** Smart trade policies

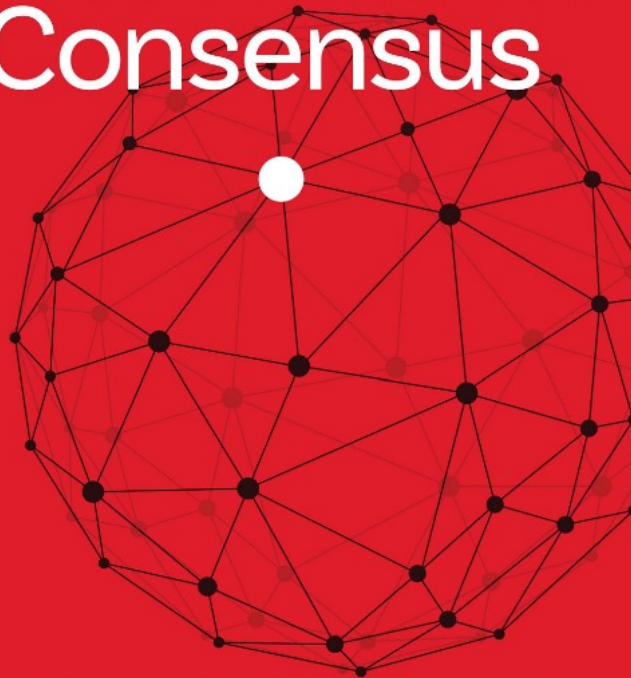
Possible applications

- 6** Pre-distribution policies
- 7** Financing social spending
- 8** Place-based policies
- 9** Jobs, wages and gender equity
- 10** Cohesion, political equality and empowerment

Fiscal Policy

- 1** Pursue fiscal discipline to avoid the macroeconomic instability associated with excessive debt issuance or money creation.
- 2** Keep public expenditures focused on basic health, education, welfare, and infrastructure, and away from sectoral subsidies of dubious social and economic value.
- 3** Raise tax revenues from a broad tax base, holding marginal tax rates at moderate levels.
- 4** Pursue fiscal activism focused on a) offsetting uninsured shocks to income via targeted transfers; and b) on preserving markets and the flow of credit through crises, beyond standard government purchases to regulate aggregate demand.
- 5** Make sure that these larger cyclical budget deficits are sustained by strong institutions, national and international, which keep debt sustainable and preserve the safety and liquidity of government t

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