REPORT

Beyond neoliberalism

Insights from emerging markets

Edited by

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Beyond neoliberalism

Insights from emerging markets

Overview

Across Western economies, the future of capitalism is suddenly up for debate. Driven in part by the twin shocks of Brexit and the election of Donald Trump, the prevailing neoliberal economic model-which prioritized a light touch regulatory regime, minimal barriers to trade and foreign investment, and overall a small role for the state in managing the economy is under attack from both the left and the right. Will neoliberalism be displaced? And what will come next?

Around the world, meanwhile, emerging markets have been grappling with similar questions for decades. Neoliberalism spread unevenly across emerging markets, and likewise many of them have been moving beyond neoliberalism for decades. These varied experiences provide valuable insights into the strengths and weaknesses of neoliberalism and the future of economic and political policymaking in a post-neoliberal world. If the Washington Consensus mantra of "stabilize, privatize, and liberalize" has lost relevance today, what—if anything—has taken its place? How are different countries reevaluating the relative roles of states and markets in delivering economic development? Are there new "models" that are generalizable and applicable across countries and contexts?

This report, which is the output of an academic workshop hosted in January 2019, seeks to provide some initial answers to these questions. It is organized around five big issue areas where neoliberalism provides incomplete or unsatisfactory policy guidance: growth strategies and industrial policy, inequality, finance and monetary policy, the environment, and power, and politics.

In an introductory chapter, **Geoffrey Gertz** and **Homi Kharas** set the stage for this discussion. They consider multiple conceptual definitions of "neoliberalism," distinguishing between neoliberalism as an organized intellectual and political movement, as an approach to the academic study of economics, and as a specific policy program. They then discuss the reasons why neoliberalism is under threat at this particular moment, and introduce several cross-cutting questions to shape the debate, including whether neoliberalism should be adapted or overturned; whether any successor to neoliberalism will need a coherent, unified theory, or if an ad hoc, experimentalist approach is better; whether scientific and engineering advances can improve the potential of centralized planning systems; and whether today's global governance institutions can accommodate a diversity of economic models.

The second chapter examines the future of economic growth strategies, industrial policy, and the globalization of production processes. **Danny Leipziger** notes that many countries have indeed benefitted from active government involvement in the economy, citing examples such as Singapore, Malaysia, and South Korea. He cautions, however, that this does not suggest every developing country should pursue an aggressive industrial policy, as such strategies are likely only to be effective when governments have requisite other policies in place, including strong macroeconomic management, control of corruption, and stable and long-lasting political regimes. Leipziger concludes that going forward more governments are likely to adopt a more assertive role in steering the productive economy, but the key to their success will be their ability to get these more basic governance functions right. Against the backdrop of a more protectionist and fractured global economy, this will prove a significant challenge.

In the third chapter, **Ana Revenga** and **Meagan Dooley** assess recent trends in income inequality around the world and strategies for tackling these inequities. Revenga and Dooley note that while cross-country global inequality has been falling in recent years, the picture on within-country inequality is more complicated. While some countries (notably in Latin America) have seen falling inequality, many others have seen sharp increases, and in particular the top 1 percent have increased their share of total income—one of the key sources of discontent with the neoliberal model. They distinguish between three sets of drivers of within-country inequality: pre-distributional concerns, meaning inequality of opportunity; in-distribution concerns, meaning the polarization of the labor market between high-earning and low-earning jobs; and post-distribution concerns, meaning government use of taxes and transfers to reallocate resources. They conclude with a set of policy recommendations aimed at each of these drivers, noting that more active government policy is necessary to ensure market-based growth delivers widespread gains.

The fourth chapter turns to the financial system and monetary policy. **Rakesh Mohan** begins by noting that the neoliberal era of financial liberalization was characterized by frequent crises in emerging and developing countries, and led to a system where finance served its own ends rather than supporting the needs of the real economy. Since the aftermath of the Asian financial crisis, however, many emerging markets have begun shifting toward a "middle path" on finance and monetary policy, which includes stronger capital account management, a role for both public and private banks in financial sector development, and a more active regulatory stance to ensure financial stability. Mohan argues that though many emerging markets have been experimenting with such policies for a long time, they have still generally been considered "unconventional," and it is time to drop such designations.

In the fifth chapter **Manish Bapna**, **Helen Mountford,** and **Janet Ranganathan** consider environmental policy in a post-neoliberal era. The authors take as their starting point the imperative that strong economic growth and environmental protection must go together, and that the only viable growth path is one that is low-carbon, resilient and sustainable. They identify four key questions for environmental policy: (1) how to measure economic well-being; (2) how to manage consumption; (3) how to design effective environmental policy; and (4) how to ensure government works well with the private sector and more engaged citizens. On all of these issues, they note that policy is shifting away from neoliberal principles in some important ways. Given that we are fast approaching irreversible thresholds and tipping points on several environmental challenges, from climate change to biodiversity to freshwater, getting this policy mix right is an urgent priority.

The sixth chapter then asks how governance and political processes in emerging markets are evolving. **Kemal Dervis**, **Caroline Conroy**, and **Geoffrey Gertz** trace the political history of how liberalism triumphed as the dominant political model in the late 20th century, at the same time as neoliberalism was emerging as the pre-eminent variant of liberalism within the broad family of liberal ideology. Looking forward, the authors identify three core issues for emerging market political development: whether corruption and state capture will drive demands for populist politics; whether governments that do not adhere to liberal democratic principles can nevertheless achieve some elements of legitimacy and accountability; and whether individual preferences or group identities will play a larger role in defining political cleavages. They close by discussing whether either populist nationalism or authoritarian capitalism will be a lasting challenge to liberal democratic political models, and note that emerging markets will need to navigate this world at a time when prospects for multilateralism and global cooperation appear to be declining.

Finally, in brief concluding remarks, **Geoffrey Gertz** and **Homi Kharas** note that emerging markets' experience with neoliberalism has been quite different from that of current debates in the West. Many emerging markets never had a strong consensus in support of neoliberalism; likewise, in moving beyond neoliberalism, they have tended to evolve in a piecemeal, ad hoc nature, rather than fundamentally changing economic systems. Moreover, the authors argue that there is no coherent alternative model to neoliberalism, in the sense of a consistent and universal policy program, on the horizon today. Rather, they see countries adopting experimentalist, iterative, evolutionary approaches to policy change, creating a landscape that may be messy and incoherent but also better allows countries to develop policy solutions attuned to their own particular challenges and contexts.

Overall, the chapters in this report—and the lively discussion at the workshop hosted on these topics—suggest that though there is some broad agreement that neoliberalism was an insufficient economic model, there are still big outstanding debates on the best path forward. We hope the analyses presented here contribute to building an active policy and academic research agenda on these important questions.

1. Introduction

Beyond neoliberalism in emerging markets

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A decade after the global financial crisis, a wide-ranging debate has opened in both the United States and Europe on the future of capitalist economic models and the need for new economic thinking.[1] This was spurred not only by the failures that precipitated the crisis, but also by a deepening realization that the dominant neoliberal paradigm had under-delivered for many people in many places over many years. Recently academics and policymakers on the left and the right in the U.S., the U.K., France, and Germany have begun to stake out alternative visions for organizing society.

Across emerging markets, meanwhile, the debate on neoliberalism has also reignited. Neoliberalism spread unevenly across emerging markets, embodied in the Washington Consensus policies embraced by the World Bank, IMF, and U.S. Treasury in the immediate post-Cold War period. Yet even at the height of neoliberalism's influence, it was an incomplete guide for economic development. Indeed, neoclassical economics has always had difficulty in addressing key development problems. How to build a nation out of the ashes of colonialism? How should one think about poverty traps and transition dynamics? How much importance should be given to capacity-building of governments, firms, and businesses? How to build strong institutions and the rule of law in countries with weak bureaucracies? Is a comparative advantage in agriculture a dead-end for sustainable growth? Is foreign aid necessary, sufficient, or even useful? Are global trade, investment, and tax rules stacked against developing countries? These core questions found little guidance in neoclassical equilibrium economics.

This project surveys the state of neoliberalism and its alternatives across emerging markets, and seeks to understand how countries are extending, revising, and rejecting aspects of neoliberalism in redefining their economic policies. This introductory brief provides a conceptual definition of neoliberalism, suggests some reasons why opposition to neoliberalism is growing, and sets the stage for a broader discussion of what comes after neoliberalism.

Neoliberalism as thought collective, as academic theory, and as policy prescription

Neoliberalism is a highly contested term, at least in part because the word is used by different people to mean different things. Here we distinguish between three distinct but related conceptualizations of neoliberalism.

1. Neoliberalism as thought collective

The first meaning of neoliberalism refers to an organized intellectual and political movement, propagated by a specific group of people. During the 1930s, as market economies faced challenges from Nazism, communism and, to a lesser degree, Keynesianism, a group of liberal thinkers in Europe and America felt the need to promote an alternative discourse championing the priority of the price mechanism, private free enterprise, competition, and a strong and impartial state. These individuals organized themselves through the Mont Pèlerin Society, first organized by Friedrich Hayek in 1947, and subsequently through a network of loosely-affiliated think tanks, universities, and publications. In this sense of the term, the debate over what neoliberalism is constitutes a debate over what ideas these self-proclaimed neoliberal individuals believed and supported, and how this evolved and shifted over time. There is still an active grouping of neoliberal scholars and historians have documented the intellectual antecedents of their research agenda.[2]

2. Neoliberalism as academic theory

A second meaning of neoliberalism refers to the academic study of economics using neoclassical models. These models are neoliberal in the sense that they are grounded in individual choices on what to consume and produce. Aggregating preferences across individuals and firms leads to supply and demand curves that constitute markets; by assuming each of these agents optimizes their decisions, economists can identify stable, pareto-optimal equilibria. Governments are also given a role through taxes and spending that are modeled to maximize some social welfare function. In the second half of the 20th century, neoclassical economics emerged as the dominant orthodoxy, in university economics departments across Europe and (especially) the U.S. In this second sense of the term, neoliberalism is bounded by the discourse of neoclassical economics and the proper interpretation of neoclassical microeconomic and macroeconomic models. While these models were originally associated with the members of the Mont Pèlerin Society and the organized intellectual movement of neoliberalism, they can also be studied and assessed independently of the thinking of these individuals.

3. Neoliberalism as policy practice

A third meaning of neoliberalism is that it constitutes a set of economic policies that have been implemented by governments espousing the same principles of individualism and markets as neoliberal thinkers. From the late-20th century onwards and epitomized by Thatcher's U.K., Reagan's U.S., and Pinochet's Chile, neoliberalism as policy practice emphasized the mantra of "stabilize, privatize, and liberalize." It advocated governments adopting a light touch toward regulation (including notably in the financial sector), avoiding industrial policy, and using the logic of market competition to allocate resources wherever possible, including in areas such as education and health policy. The neoliberal policy agenda was supported by the organized movement of neoliberal intellectuals, and aligned with the rise of neoclassical economics, but again the concepts can be analyzed independently of one another: importantly, the neoliberal policy agenda is one possible application of the lessons of neoclassical economics, but other interpretations are also possible.

A working definition of neoliberalism

The definition of neoliberalism is contested not only because it is frequently applied to these three overlapping but not identical concepts, but also because in each of these cases there is not one single, narrowly-defined idea, but rather considerable ambiguity and flexibility. For instance, while the original members of the Mont Pèlerin Society broadly agreed on an ideology that privileges markets over central planning, they disagreed on many questions of social policy. Similarly, there are multiple variants of neoclassical economics, such as monetarism and supply-side economics, and rich debates and heated disagreements among their practitioners. And as policy practice, neoliberalism was adapted to local contexts and conditions as it was implemented by local elites, leading to considerable variation across place and time.[3]

This plasticity has led some critics to assert that neoliberalism is a meaningless term.[4] Yet there is a core of neoliberalism, which can be defined both by what it includes and by what it excludes, and it remains a useful analytical concept for understanding the contemporary world. For the purposes of this project, we focus primarily on the latter two meanings of neoliberalism, eliding debates over the historical intellectual and social movement.

The definition of neoliberalism as a branch of modern economics is relatively straight forward. We adopt the definition provided in Colander, Holt, and Rosser (2004) of neoclassical economics as “an analysis that focuses on the optimizing behavior of fully rational and well-informed individuals in a static context and the equilibria that result from that optimization.”[5] Neoclassical economics is a meta-theory that provides an overarching framework for analyzing economic phenomena. Within this framework many different—and competing—approaches are possible. But all of these approaches ultimately rest on the same assumptions of rationality, individualism, and equilibria.

With respect to neoliberalism as a policy practice, definitions are more politicized, and thus more contested. We understand neoliberalism as a set of fundamental principles for policymaking that in turn support a specific agenda for policy reform in emerging markets. The principles are:

- The right to private property and to freely contract with other private parties is the heart of economic liberty, and is a precondition of all other liberties and freedoms.
- Competition and market mechanisms are the best way to organize economies, polities, and societies.
- The role of the state and international institutions is to enforce property rights and “encase” markets from democratic/populist challenges.[6]

The subsequent policy agenda for emerging markets includes:

- Deregulate domestic markets and eliminate price controls to encourage competition.
- Privatize state-owned enterprises, and wherever possible, encourage service provision (utilities, healthcare, education) through private markets.
- Liberalize financial markets and open capital accounts.
- Minimize trade protectionism to expose domestic markets to international competition.
- Limit governments’ ability to run fiscal deficits and accumulate debt.
- Avoid government subsidies or ‘picking winners’ among domestic firms and industries.
- Strengthen legal protections for property rights.

This set of policy prescriptions is notable as much for what it excludes as what it includes. The neoliberal agenda has little to say on issues of the environment or inequality, for instance. Neoliberalism does not preclude policy action on these issues, but it also does not emphasize them, nor include these outcomes in individual utility functions. In other words, the impact of the neoliberal policy agenda is due as much to its prioritization of certain problems over others as to its specific policy advice. To the extent that issues such as the environment or inequality are considered at all, they are typically second-order concerns. For example, policy advice on how to liberalize international trade policies might secondarily consider actions to help alleviate any impact on inequality. But neoliberal policy advice would not prioritize lessening inequality as a first-order concern, and then secondarily ask whether this directive would have negative consequences for trade policy.

As this discussion of prioritization suggests, it should be underlined that the neoliberal policy agenda does not necessarily follow automatically from the prescriptions of neoclassical economics.[7] Textbook neoclassical economics allows for both market failures and government failures, and would not in itself provide any particular guidance on how societies should weigh competing social priorities. Yet, partially due to the successful efforts of the network of neoliberal thinkers mentioned above, this neoliberal policy agenda has come to be seen as the default approach to economic policymaking. This is a powerful position, as any deviations from this neoliberal default would have to be explicitly justified. Part of the backlash to the neoliberal policy agenda today is an effort to reclaim economics from the narrow focus of neoliberalism, and use economic tools and thinking to address a very different set of policy problems.[8]

Neoliberalism under threat

As critics of the term neoliberalism have long noted, the label has more frequently been employed by its detractors than its supporters. Anti-neoliberal rhetoric has been a feature of the anti-globalization movement for decades, and continues to animate many activists and civil society members on the left.[9] In many emerging markets the shift away from neoliberalism has been underway for some time. Indeed, the popularity of neoliberalism in emerging markets probably peaked in the 1990s. In the intervening years, there have been a series of economic and political shocks—from the Asian financial crisis, to the rise of the "Pink Tide" movement in Latin America, to the Arab Spring—which have prompted policymakers to adopt more interventionist, and often less dogmatic, economic policies. These varied experiences provide a wealth of practical lessons from which current policymakers can draw upon.

Yet, while there are certainly historical precedents for the neoliberal backlash, it does also feel like there is something new about the current moment. This is partially because today challenges to neoliberal orthodoxy are coming not just from periphery countries of the developing world, but also the core powers of the U.S. and U.K. And neoliberalism is being challenged not only by long-hostile elements of civil society, but also by some more traditionally conservative, establishment institutions. Within academia, heterodox approaches to economics are gaining traction, albeit only in fits and starts.[10] Even within the core of mainstream economics, there is a decided move away from studying homo economicus, the idealized neoliberal notion of a perfectly rational self-interested individual, and toward incorporating insights from psychology and sociology to study a closer approximation to the real world.

Among policymakers, meanwhile, non-neoliberal political movements have been gaining in power, on both the right (such as in Hungary and Poland) and the left (such as in Mexico). Growing opposition to neoliberalism is closely related to the swelling sense of dissatisfaction with globalization and the collapse of trust in major institutions across the world. For instance, the 2018 Edelman Trust Barometer finds that more than half the general population distrusts existing institutions, all of which are based on neoliberal principles, in 20 of 28 major markets across the world.[11]

Why is neoliberalism under attack at this particular historical moment? Here we point to five potential explanations:

China's success

Today China is the envy of many developing nations, thanks to its historical performance in reducing poverty and sustaining high growth rates for decades. Initially, China's success was incorporated into the neoliberal narrative as further evidence that market-oriented reforms delivered superior economic performance. But the hope of neoliberals that economic liberalization would, in turn, spawn political liberalization turned out to be wishful thinking. China's continued suppression of core individual freedoms means it cannot be held up as an example of neoliberal success.

Even worse, from a neoliberal perspective, China's successful economic performance is portrayed as a result of a strong state, with state-owned enterprise command over banking and other strategic industries, all coordinated through state planning. Whether it is mastery of emerging 5G technologies, or the geostrategic impact of state plans like the Belt and Road Initiative, or Made in China 2025, the China story is offering an alternative of state planning and ownership in a mixed economy as a viable alternative to neoliberalism. Moreover, the rise of sovereign wealth funds (SWFs)—often though not necessarily funded through natural resources—provides many states the means to finance large public sectors without relying on high distortionary taxes on income or corporations.

Planetary boundaries

Scientists at the Stockholm Resilience Center have voiced concern over global warming and other planetary boundaries that need to be respected if global economic development is to be successful. The core problem, in their view, is that change may be non-linear and irreversible, with major consequences for growth and development. Market solutions are unlikely to be sufficient or efficient. Overshooting is a common phenomenon in markets, and in most cases does not pose problems because markets self-correct to reach stable equilibria. But if price or quantity overshooting crosses a threshold triggering non-linear change, as could be the case with carbon emissions, biodiversity or other such issues, then market processes will not work.

The alternative to market-based approaches is to empower strong collective action by the world's governments, probably through the development of supra-national institutions. The Kyoto Agreement was an initial failed attempt to plan physical reductions in carbon emissions at a global scale. The Paris Agreement on climate change finesses the issue of states versus markets, but runs the risk of being "too little, too late," with no enforcement mechanisms. The planetary boundaries school, and more generally the idea of greater reliance on natural science as a key input into sustainable development, argues for a far greater degree of state planning and action than would be consistent with neoliberal thought.

The concentration of corporate power, especially in new technology industries

One of the central tenets of neoliberalism is the importance of competition as a driver of innovation and progress, and a check on the power of large corporations. Neoliberals have been fierce opponents of monopolies (and unions).

Today, with the rise of large corporations, the neoliberal camp is split. On the one hand, neoliberal support for private free enterprise and minimum regulation argues for a hands-off approach by government regulators. On the other, the ability of tech companies to exploit digital platforms to reach unprecedented scale raises the specter of excessive concentration of power. The five FAANG companies—Facebook, Apple, Amazon, Netflix, and Google—now have annual revenues approaching $1 trillion per year, a level equivalent to the seventeenth largest economy in the world, roughly the same size as Indonesia and larger than Turkey or Saudi Arabia.

The size and reach of tech companies gives them extraordinary power in ways that are not fully understood. The use of social media for voter manipulation, use of individual personal information for the profit of others, and the potential for anti-competitive behavior all strike at the heart of the neoliberal concern with the primacy of individual choice and decision-making. The relationship between the state, heretofore the most powerful actor in society, and large corporations is a fundamental challenge to neoliberal tenets, especially in smaller countries that may not have the capacity or understanding to establish appropriate guard-rails. For developing countries, state capture by corporations has been a long-standing concern, even before the rise of the tech giants.

In an added twist, tech companies have been at the forefront of international tax avoidance, freely shifting profits to low tax jurisdictions in ways that further undermine popular support for globalization.

In summary, the neoliberal framework offers little guidance for the regulation of companies where scale economies associated with digital platforms create winner-take-all outcomes.

Happiness, inequality, and individual preferences

There is substantial empirical support for the idea that subjective well-being is decreasing with respect to other people's income, but the sign and strength of this effect varies by place. Ifcher et al. (2018) posit alternative channels for how neighbors' higher incomes could influence individual utility, some positive (like greater willingness to contribute to public goods), and some negative (like cost of living or relative income perceptions).[12] They find mixed empirical evidence depending on context and geographic scale.

Grossman and Helpman (2018) also consider the implications of introducing others' incomes into individual utility functions.[13] They study the implications for trade policy of incorporating a group social identity metric into the modeling and find that, when this is done, the policy response can be sudden and dramatic. They give examples of how a more narrowly defined identity can generate discretely higher tariffs.

These examples point to cracks emerging in the elegant neoclassical economics convergence between the maximization of private self-interest and free trade. If populist politics alter how people feel about others' incomes, then the policy prescriptions for optimizing society's general interest will change.

Superimposed on these issues are the broader problems of right-sizing the welfare state. For example, in the OECD, the post-tax, post-transfer distribution of disposable income is on average 27 percent below the pre-tax, pre-transfer market income inequality. Yet even with these relatively large transfers, the inequality in the distribution of wealth remains high. The OECD reports a quarter of households with negative net worth, and one-third as economically vulnerable, defined as having insufficient liquid financial assets to maintain a poverty-level living standard for at least three months. High wealth inequality, in turn, is seen as a critical obstacle to inter-generational equality of opportunity. And with market income distributions becoming more uneven over time, the tax/transfer responsibilities of governments have to keep growing just to preserve the current levels of income and wealth inequality.

In developing countries with less effective tax systems and less efficient social protection, the challenges of rectifying market income distribution outcomes are all the more severe.

Financial crises

The literature on economic growth in developing countries has identified avoidance of crises, or minimization of episodes of slow growth, as the key to superior long-term growth.[14] The IMF has identified 432 episodes of systemic banking, currency or sovereign debt crises between 1970 and 2012, or approximately 10 per year.[15] Crises are common, have major long-lasting macroeconomic effects, and typically stir bitter debate over the appropriate policy response. By their very nature, crises represent sudden departures from an equilibrium.

The neoliberal prescriptions of light touch regulation, small government, and free movement of capital fit uneasily with the desire to avoid financial crises. Crisis management usually results in a swollen public sector. In countries as diverse as Indonesia, Iceland, and Ireland, responses to financial crises increased public debt by around 70 percent of GDP.[16] Crises can arise from private sector excesses or public sector excesses; from policy mistakes, or from lack of policy space; from external or internal shocks.

Ultimately, crisis resolution depends on a complex power negotiation between creditors and debtors, and on a lender of last resort to manage the process, including through the injection of new liquidity as appropriate.

Despite its importance, neoclassical economics has had little to say about avoiding or managing crises. But the size and impact of the 2007/2008 Great Financial Crisis, coupled with the complete absence of any early warning system, has shocked the economics profession and greatly disturbed the neoliberal hope that markets would self-regulate and self-correct through signals like the price of subordinated bank debt.

After neoliberalism: What is to be done?

Up until now, the critics of neoliberalism have generally been more successful in describing flaws in the existing paradigm than in offering coherent alternative approaches. If the movement to counter neoliberalism is to gain steam, however, it will need to put forward a vision of what such alternatives may look like. Four questions in particular stand out:

Can neoliberalism be adapted, or does it need to be overturned?

Neoliberalism's flexibility has allowed it to adapt to many different contexts and demands. Are reforms from within the broad tent of neoliberalism feasible, so that, once re-envisioned, they can be better implemented and regain public support and legitimacy? Greater attention to competition, to appropriate regulation of banks and tech companies, to equality of opportunity, to reducing labor market discrimination, and to redistribution (perhaps through wealth taxes), could lead to more sustainable systems of market economies with governments acting on behalf of the broader population. In short, proponents of adapting neoliberalism argue there is considerable scope for adjusting the model without sacrificing its basic tenets of free markets and decentralized power. Market logic can be applied to aspects of the development process that earlier iterations of neoliberalism overlooked, such as environmental protection. The adaptations would likely involve a larger state than most neoliberals would feel comfortable with, so this is not simply a model tweak. But it would not demand whole-scale reinvention of the dominant development model.

Is a unifying theory necessary, or can policymakers rely on a more eclectic and experimental approach, guided by big data and artificial intelligence (AI)?

One of the reasons neoliberalism has been influential is because it offers a coherent framework for making effective policy decisions. Neoliberals stripped complexity away from the world, presenting models that permit, through an analysis of comparative statics, policy debate and policy choices.

Should any alternative to neoliberalism similarly present a coherent, unified, and simplified theoretical understanding of the world? Not necessarily. Indeed, AI and machine learning are opening up new approaches for data-driven policymaking that upend traditional economics.

Causal inference is not the aim of AI. Instead, machines analyze the world as it is, and constantly fine-tune predictions about future outcomes.

Making predictions is useful because it can fundamentally change strategies and alter incentives for research, development, and innovation. It promotes experimentation as a way of learning. It recognizes the importance of context.

Such an approach is not new. Dani Rodrik, in his discussion of the World Bank's "Economic Growth in the 1990s: Learning from a Decade of Reform,"[17] offers these comments:

> *"There are no confident assertions here of what works and what doesn't—and no blueprints for policymakers to adopt. The emphasis is on the need for humility, for policy diversity, for selective and modest reforms, and for experimentation."*[18]

In other words, move away from "best practices" and theory, as prescribed by neoliberal thinking and models, and move towards greater discretion, innovation, and learning in policymaking. Rodrik notes that the evidence that macroeconomic policies, price distortions, financial policies, and trade openness have predictable, robust and systematic effects on growth is quite weak, except for extreme values. This suggests that generalized theories may be of limited use, and policymakers are better off adopting an agnostic, experimental approach.

Can engineering replace market competition as a means of achieving complex outcomes?

Neoliberalism eschewed top-down planning in favor of bottom-up markets. Yet many complex goals have proven to be difficult if not impossible to achieve through uncoordinated market activity. An alternative is to rely more heavily on engineering and planning solutions rather than market solutions to tackle selected policy problems. For instance, Jeffrey Sachs has argued that diplomats rather than engineers have dominated international climate change talks.[19] As a result, we now have a rule book for measuring greenhouse gas emissions and protocols for knowledge sharing, but we still lack a detailed plan for achieving significant decarbonization of the economy. To get such plans, according to Sachs, we need to call in the engineers, set the desired specifications and timelines and empower them to get the job done. This has been the approach followed to drive down air traffic fatalities, to generate payment systems capable of handling trillions of dollars of transactions each day, and to explore space.

Beyond decarbonizing energy, there are an abundance of areas where an engineering or planning approach to coordinate global activities would be desirable: Management of the high seas; a bioeconomy council to improve global food systems; digital IDs to enable everyone to avail of safety net programs and to participate in the global economy; broadband roll-out; and more.

As the world becomes more complex and as more areas become subject to scale economies that transcend borders, planning solutions could become more important. At the same time, advances in technology are increasing the potential productivity of both the private and public sectors—though not necessarily at the same rate. Will new technologies allow governments to better avoid some of the inefficiencies of central planning? Or will technological development favor private sectors that can adapt more quickly to change? How will this vary by country and issue area?

Can global governance institutions accommodate a multitude of economic models?

Existing global economic institutions are, by and large, designed to manage interdependencies of policymaking among countries with fundamentally similar economic models. For instance, the rules of the WTO distinguish between "market economies" and "non-market economies," but does not make any distinction between the many different approaches to organizing economies that fall within these broad headings. This is already creating strains, as members disagree over what constitutes WTO-inconsistent subsidies.[20] Similarly, much of the policy advice offered by the World Bank and IMF, and the very nature of capacity building training, implicitly assume one "correct" approach to governance that is translatable across countries.

During the Cold War, blocs of countries with differing politico-economic models both (a) engaged in an intense geopolitical rivalry and (b) had relatively few economic links with one another. Is it possible for countries with significantly different economic models to nevertheless be closely integrated? What reforms to international institutions will be needed to allow this? Will countries with differing economic models naturally tend toward ideological (and potentially security) rivalry? How can this be prevented?

Conclusion

Today the academic approach to neoliberalism is institutionalized throughout policymaking. To cite just a few examples: central banks use dynamic stochastic general equilibrium models with micro foundations to simulate monetary policy options; international norms for debt sustainability based on neoclassical growth models have been built into the EU's Maastricht criteria and the IMF's debt sustainability assessments; global computable general equilibrium models were used to understand the distributive effects of the Trans-Pacific Partnership agreement.[21]

The extent to which such thinking and models structure our policy choices, enabling certain options and foreclosing others, is not always appreciated or reflected upon. A policymaker seeking to boost living standards who is armed with a neoclassical growth model faces a limited menu of options: greater capital accumulation, higher labor growth, or nebulous "technological growth" or "policy reforms" to accelerate productivity. Neoliberal thinking has insinuated itself into the operating assumptions for many economic policy decisions.

This underlines the scope of the challenge for thinking about policymaking after neoliberalism, and the need for a wide-ranging and imaginative debate on new frontiers in emerging market policymaking. We hope this project contributes to such a debate.

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[1] See, for instance, Bhaskar Sunkara and Steve Pearlstein, "Is America's Future Capitalist or Socialist?", Vox.com, January 7, 2019; as well as the Institute for New Economic Thinking, "About Us", 2019.
[2] See, in particular, Quinn Slobodian, *The Globalists*, Harvard University Press, 2018; P. Mirowski and D. Plehwe (eds.), *The Road from Mont Pèlerin: The Making of Neoliberal Thought Collective,* Harvard University Press, 2009; and Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics,* Princeton University Press, 2012.
[3] See Cornel Ban, *Ruling Ideas: How Global Neoliberalism Goes Local*, Oxford University Press, 2016.
[4] See, for instance, Ed Conway, "What is Neoliberalism and Why Is it an Insult?", SkyNews, May 15, 2018.
[5] David Colander, Richard Holt & Barkley Rosser Jr. "The changing face of mainstream economics". Review of Political Economy 16(4): 485-499, 2004.
[6] For more on this aspect of neoliberalism, see Quinn Slobodian, *The Globalists*, Harvard University Press, 2018
[7] For more on this point, see Dani Rodrik, "Rescuing Economics from Neoliberalism", *Boston Review,* November 6, 2017.

[8] See, in particular, the work of the 'Economists for Inclusive Prosperity' network.
[9] For a contemporary example, see Winnie Byanyima's (Executive Director of Oxfam International) recent article "Globalization 4.0 for Whom?", (Project Syndicate, December 19, 2018), which notes that ""Globalization 4.0 must offer a new narrative to replace the abusive, extractive, and sexist neoliberalism of the past few decades."
[10] See discussion in J.W. Mason, "Pulling Rabbits Out of Hats", *Jacobin*, November 2018.
[11] Edelman, "2018 Edelman Trust Barometer: Global Report."
[12] Ifcher et al., "Local neighbors as positives, regional neighbors as negatives: competing channels in the relationship between others' income, health and happiness", *Journal of Health Economics* 57: 263-276, January 2018.
[13] Grossman, Gene M., and Elhanan Helpman. "Identity Politics and Trade Policy", NBER Working Paper No. 25348, December 2018.
[14] See, for instance, Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, 2008.
[15] Fabian Valencia and Luc Laeven, "Systemic Banking Crises Database: An Update", IMF Working Paper No. 12/163, June 2012.
[16] Ibid.
[17] World Bank, *Economic Growth in the 1990s: Learning from a Decade of Reform*, 2005.
[18] Dani Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform." *Journal of Economic Literature* 44: 973–987, December 2006.
[19] Jeffrey Sachs, "For Climate Safety, Call in the Engineers", Project Syndicate, December 20, 2018. Dec 20, 2018.
[20] For an excellent analysis of these issues, see Mark Wu, "The China Inc. Challenge to Global Trade Governance." *Harvard International Law Journal* 57: 1001-1063, 2016.
[21] See, for example, Peter A. Petri and Michael G. Plummer, "The Economic Effects of the Trans-Pacific Partnership: New Estimates", Peterson Institute for International Economics Working Paper WP16-2, January 2016.

2. Economic growth strategies beyond neoliberalism

Do we need new models for the 21st century?

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"We will do all we can to abolish this neo-liberal regime"
Andres Manuel Lopez Obrador, Inauguration Speech
Address to the Mexican Congress, December 1, 2018

Introduction

There is little doubt that recent trends and events have gone beyond the new normal and have given rise to a new trajectory, one further away from the prevailing paradigm of globalization-led growth. This is seen in new directions of U.S. economic policy, Brexit and strains in the EU, China's ascending position in the global economy, as well as the rise of inequality and distributional concerns in advanced and even upper-middle-income countries. Hence, the question as to whether the prevailing principles that dominated mainstream economic policymaking are now passé is critically relevant. While looking ahead is a highly uncertain endeavor, it can be reasonably surmised that disruptive technologies, rising nationalism, aging, and a China-dominant East Asia are fairly sure bets. In this new set of circumstances, Emerging Market and Developing Economies (EMDEs) will face a new set of challenges in addition to ones already confronting them.

Within this constellation of "new things", there is an overarching question as to whether the set of tenets originally described as the Washington Consensus—but then broadened to include many aspects of what we call globalization and an open world trade order (for example, robust trade growth led by Global Value Chains (GVCs), easy flows of international capital, and operations across many borders by global firms)—will fundamentally change. Some speak of a "Beijing Model," while others see the world fragmenting into regional blocs or even national economic havens. Within this spectrum of views lie questions of interest to EMDEs, such as whether to pursue more domestically-led development strategies, whether to assert more control over capital flows and manage exchange rates more aggressively, whether to encourage state-owned enterprises (SOEs), and basically whether or not to engage in aggressive industrial policies.

This chapter attempts to disentangle some of the interconnected challenges, drawing upon what we know and what we can reasonably anticipate happening. Care is taken to eschew strict ideologies, although this is almost impossible, since there are always priors that affect our views. In this context, even the term "neoliberal" is one that can take on many shades, so that our approach will be to stick to the economic policies themselves rather than seeking to characterize them.[1] The central point is that some policies of past decades may require re-examination in light of the prevailing and anticipated future economic environment, including the rise of global corporations and the relative decline of national policies.[2] Whether this implies a major paradigm shift, especially with regards to government involvement in resource allocation decisions, remains to be seen. This note may provide some views that can help stimulate that discussion.

The role of markets and state-owned enterprises (SOEs)

Economic policy in the 21st century will have to continue to rely on markets, even though worldwide evidence may be pointing to a greater concentration of economic power in the hands of large firms.[3] Relatively few countries will have the size, skills, and capital to compete with global mega-firms. Some, such as Brazil, have tried and put enormous financial resources behind these efforts (to wit, lending by the national development bank, BNDES), but they have failed. Why? One reason is that it was not the market that chose potential winners and that the firms in question never reached the requisite productivity levels to be globally competitive.[4] A second observation is that insufficient capital was allocated to start-ups that had the potential to innovate and also achieve necessary scale. A third element is that political influence, if not outright corruption, influenced allocation of subsidized credit.

The question is whether public monies should be allocated to support private firms that have global aspirations, and if so, how to do so while avoiding political capture. One country that has managed this conundrum well is Singapore. Government invests in its quasi-public companies, Government-linked Corporations, but runs them in accordance with strict market principles, largely devoid of corruption. Some argue that this is also the case in Rwanda, although the industrial policy (IP) of Rwanda has many import-substitution elements (e.g., national production aims) and few aspirations of being regionally competitive.[5] China, because of its size, is not really a useful model; moreover, as observers such as Dani Rodrik have pointed out, China has been able to game the international system very effectively, penetrating markets successfully, while pursuing its strategic objectives using the full arsenal of state-led policy instruments and its sheer size to its advantage.[6] For this reason, talk of a Beijing model is largely irrelevant for most countries seeking to make significant economic gains.

Can governments use international market yardsticks and still pursue national economic interests? Absolutely. In this context, the actions of Malaysia throughout the 1980s and 1990s vis-à-vis foreign direct investment (FDI) and the actions of Vietnam in the 1990s and 2000s stand out. Malaysia (similar to Singapore) was selective and persistent in attracting higher-tech FDI and was careful to offer incentives for domestic component manufacturing, whereas Vietnam embraced export processing zones (EPZs) that brought a huge volume of investment and employment, but rather sparse technological transfers or support to domestic enterprise development. One argument may well be that, to benefit from FDI, the state needs to either operate state-linked firms on a commercial basis, like Malaysia and Singapore, or be the second largest economy in the world, able to capitalize on its size and political power. This naturally leads to a discussion of SOEs.

Some SOEs, particularly in natural monopoly industries, are efficient and where ownership affected neither their management nor operations. But these cases are the minority. Most SOEs benefit from cheap credit, weak oversight, political influence, and over-manning. This is not an ideological view, but rather one supported by evidence. Business Environment and Enterprise Performance survey (BEEPS) data from Eastern Europe support this conclusion, and the operations of state enterprises worldwide supports this view.[7] Even in China, which has produced large world-class firms, corporations that have benefited from state funds are not run as state firms. In contrast, those firms that are actually under state control suffer the same difficulties in reaching efficiency frontiers as do SOEs in other countries. So, SOEs are not the panacea.

Indeed, in a world in which returns to innovation can be large, SOEs are not well placed to innovate, precisely because they lack strong competitive pressures and hence can operate at lower levels of productivity.[8] If governments wish to promote new strategic industries, they will do better with support to private entrepreneurship, provided that (a) the conditions and yardsticks under which the support is given are clear and monitorable, (b) there is a minimum of political influence in their operation, (c) corruption can be avoided, and (d) the state has a financial stake in the upside or success of the venture. One may speculate that this only works if government has the upper hand in its relations with business, which then speaks to the political economy issues associated with successful outcomes.

And admittedly, government's stake in ventures needs to be passive rather than active, although it can be argued that the public interest necessitates this stake rather than merely relying on corporate taxation, which has proven to be weak in many countries in capturing rents.

Trade policy and domestic linkages

Proponents of free trade, a basic tenet of modern economic thinking, have been dealt severe setbacks by the inability of the WTO to rise to the occasion in dealing with services, intellectual property, and state capitalism, as well as by the Brexit case and the view that the gains from trade have diminished in the largest customs union. Moreover, the current trade war between the U.S. and China has sent global trade conversations into a nasty political space. The implications for EMDEs are not favorable, as both the U.S. and China, the two largest economies, are re-positioning their trade policies, and greater uncertainty surrounds future trading arrangements.[9] Many lower-income EMDEs still suffer stiff opposition in their quest to gain higher value-added footholds in advanced market economies, so the promise that openness would lead to prosperity hasn't materialized for many. Of course, some poor export outcomes are due to other factors, such as poor logistics, high energy costs, or low productivity, and some export outcomes are due to NTBs and other restrictions. EMDEs may well wonder, therefore, whether these new directions in trade policies should lead them into fresh attempts at import substitution and more aggressive IP pursuits.[10]

The only factor potentially operating in the opposite direction is China's Belt and Road Initiative (BRI), which has the potential of reducing some major infrastructure bottlenecks and fostering more trade in the future. There are some estimates that show significant trade gains from the BRI; however, these possible benefits further down the road need to be balanced with the possible increases in debt owed to China.[11] Many BRI investments are on commercial terms, but the exact terms are opaque. Countries may therefore find themselves highly indebted, but not gaining much from the BRI if the investments are largely unconnected to the domestic economy, namely, with few real linkages and limited scope for domestic income gains. Similar to EPZs, the ability to gain from this enclave type of investment depends on the ability of the local economy to participate in the project and to capture some significant gains from increased BRI-generated trade. Unfortunately, so far, it appears that each investment is a one-off bilateral agreement, often at odds with prevailing best practices as promulgated by the World Bank and IMF, and hence involving uncertain economic and social returns.[12]

Therefore, the prospect that trade will be drive global growth over the next decade is a guarded one, depending on the duration and lasting impact of the current trade war, the ability of the international system to reach a new political equilibrium, and the as yet unanswered question as to whether China will relinquish low-labor-cost markets quickly enough for others to benefit before new technologies make those production techniques obsolete. The approach for EMDEs, therefore, might include policies that are more directed to establishing competitive industries, perhaps for regional markets, and restricting some global players unless they agree to share technology and involve the domestic private sector. This can only succeed, however, if domestic policies stimulate efficient economic activities in national markets, whether by private or public firms.

Industrial policy

The basic narrative on IP has evolved over past decades, but there is little need to review the past debates.[13] The prevailing view may well be characterized as follows: All countries have some set of incentives that affect resource allocation, but some have been very aggressive in this respect, with a very clear set of objectives. In some circumstances, as part of strong economic management, this economic steering of the economy has worked well, largely in East Asia. There are costs to this aggressive use of IP, but it has helped propel countries like South Korea and China into becoming major economies of the globe.

These aggressive IPs would not have succeeded were it not for superior economic management, high savings and investment rates, strong and continuous monitoring, and a clear long-term vision for the economy backed by strong political commitment.[14]

In this context, it is worth noting that there are some common governance features among those countries that have successfully pursued aggressive IPs. The main unifying characteristic is that countries such as South Korea, Malaysia, Singapore, and China in East Asia—as well as Rwanda and Ethiopia in Africa—have had stable and long-lasting political regimes that have been able to articulate and effectuate a long-term economic vision (see Table 1 for a quick and somewhat subjective review of those policies). Clearly, the means have differed and success has varied, but one cannot escape the conclusion that during the times of aggressive IP implementation there were relatively few regime changes, so that continuity of policy, consistency of policy, and use of a variety of complementary policy tools were possible without political interruption.[15] Few countries will replicate these circumstances. Moreover, those countries attempting to reach lower middle-income status in the current environment may find the incline considerably steeper than in previous decades.

It is perhaps useful, therefore, to consider a broader concept of “strategic directions” for a nation, and to then see whether policies can be designed and aligned to achieve them. Some policies may include public subsidies, as exist in almost all countries; however, the key criterion is the basis on which they are given and the measures of success that are employed. South Korea’s policy loans were given in exchange for export performance with the objective being to both penetrate foreign markets and achieve meaningful size, producing Samsung, Hyundai, and other world-class companies. China also encouraged intense domestic competition to help create its global companies, providing the support of the state to help finance them. The common feature in both countries was strong competition among firms. It is clear that countries that lack domestic competition will not likely be internationally competitive.[16] One conclusion worth drawing is that old-fashioned import-substitution that shields domestic producers and allows them to operate far from the global efficiency frontier will not be as useful in the 2020s as in prior decades.[17]

That said, the changes in the global economy that have allowed first-mover firms to establish high global concentration means that there are limits to unfettered openness. There are also changes in technologies that place limits on the gains achieved in the past from GVCs, meaning that some re-shoring of production will occur in advanced economies. The implication is that the gains from trade will in future decades be smaller and that external sources of growth may be more limited.[18] Under these conditions, what should be the response of governments in the EMDEs and should they be following a state-capitalist model? The most likely correct answer is no, since most countries lack the very basic prerequisites to make such aggressive policies a bet worth taking. In the next sections, I examine many of the questions raised in connection with an aggressive IP, although I may prefer perhaps to refer to the strategic positioning of the country's policies to attain certain economic and societal goals in lieu of the more provocative term of industrial policies.

The basic point is that this approach can potentially be beneficial, but it is only worth undertaking if a number of other policies are effectively managed by government. Without strong macroeconomic management, IP cannot work, since firms are battling inflation and eschewing long-term investment, and government risks under-investing in public goods. Without a strong grip on corruption, IP will easily lead to the capture of rents by a few associated with the state. Without efficient delivery of public services, the state shows itself incapable of handling its more basic requirements. Looking at Ethiopian and Rwandan examples, therefore, ignores the lessons from dozens of other sub-Saharan African countries where the above-mentioned pre-requisites were absent. It is, therefore, less a matter of neoliberal versus alternative ideologies as it is basic functioning of government. Abstracting from this somewhat artificial debate, governments need to be cognizant of and responsive to changes in the global architecture, especially as it relates to new technologies, which offer potential gains, pose some challenges, and are not the panacea hoped for by many to solve development constraints.

Factors influencing development success: Then and now*

Policies	**S. Korea (1988)**	**Singapore (1979)**	**Malaysia (1995)**	**China (2010)**	**Vietnam (2028)**	**Rwanda (20xx)**	**Ethiopia (20xx)**
Macroeconomic Stability	YES	YES	YES	YES	YES	YES	YES
Export Orientation	YES	YES	YES	YES	YES	LIMITED	SOME
Human Capital Push	YES	YES	YES	YES	YES	SOME	SOME
Selective Industrial Policy	YES	SOME	SOME	YES	NO	YES	SOME
Directed Credit	YES	NO	SOME	YES	NO	SOME	SOME
State-Owned Enterprises	LIMITED	GLCs	SOME	YES	SOME	SOME	SOME
Institutions							
Governance	STRONG	STRONG	STRONG	GOOD	FAIR	STRONG	STRONG
Coordinating Ministry	STRONG	STRONG	LIMITED	LIMITED	LIMITED	LIMITED	LIMITED
Effective Bureaucracy	YES	YES	SOMEWHAT	SOMEWHAT	SOMEWHAT	FAIR	FAIR
Political Stability	YES	YES	YES	YES	YES	YES	YES
Visionary Leadership	YES	YES	YES	YES	SOMEWHAT	YES	SOMEWHAT

*(Years in parentheses reflect when the country achieved Upper Middle-Income status defined by the World Bank as $4000 per capita income in 2016 prices.) GLCs are Singapore's Government-Linked Corporations. Vietnam estimate comes from the World Bank, Vietnam 2035 Report (2015).
Sources: Based on Leipziger, D. and Thomas V., "Lessons from East Asia," World Bank, 1993 and author's classifications.

New technologies

New technologies have been associated in the post-World War II years with major advances in economic growth and average incomes. Concerns in the U.S. in the 1960s, for example, about automation didn't materialize to any significant degree and the computer revolution dramatically increased efficiency and productivity. The latest boost to technology, the internet of things, however, has been more disruptive, and future projections show further significant labor displacement. This replacement of people by artificial intelligence (AI), robotics, driverless cars and the like, implies a major shift in how things are produced and where they are produced. This has played out through a reversal of off-shoring of goods or even of services, like call centers. The net impact on trade and on labor markets is difficult to predict, but the direction of change is clear.[19]

Trends described generally as de-globalization have already appeared, so the linkage between disruptive technologies and the fortunes of EMDEs is potentially quite important. Do these trends portend changes in development strategies? Many focus on the benefits of the new technologies that provide cheaper, more accessible services, drawing on the experiences of cellphone use for a variety of financial services, medical information sharing, and market data that can help farmers.[20] Along with these benefits, however, come the downside as they will also displace many low-wage jobs across the globe. Hence, the burden of adjustment will fall on those least able to cope, and middle-class incomes will be affected. Governments will be pressed to protect domestic jobs, so that the imposition of non-trade barriers (NTBs) on services provided by foreign firms may well rise. Similar to the situation foretold by Joseph Stiglitz in terms of winners and losers from globalization, as the benefits of trade recede, and the adjustment costs rise, support for free trade may decline and nationalism may well become more prevalent in middle-income countries (MICs) in the future. [21]

One area of concern is regulation, which has proven difficult in the advanced economies vis-à-vis some producers of new services who achieve dominant market positions.[22] This is not confined to the rich countries, however, as many of the new multi-millionaires come from the digital products sector and many engage in pricing policies that deter new entrants and keep cost high. Unless these domestically powerful interests are subjected to global competition, they run the risk of producing huge rents behind protective walls. In a world of regional blocs and increased nationalism, contestability in markets may be harder to achieve.

Therefore, new technologies need to be examined carefully for their benefits and costs to societies, and governments may need to exact a price (in the form of greater access to the under-served, significant taxation where monopoly rents exist, and greater entry incentives for new competitors). The experience of Mexico in allowing a private telecoms monopoly to replace a public one without effective regulatory control is instructive for others, especially in sub-Saharan Africa.[23] Moreover, new technologies need to be deployed in water, sanitation, urban transport and other areas in which they currently are not operating to capture and disseminate broader societal benefits.

Concrete advice for governments

When looking into the future, there is, of course, a tendency to think that everything has changed and all policies need to be revised. In my view, this is not the case, however, since the fundamentals of macroeconomic management, microeconomic resource allocation, and good governance remain largely unaffected by new external developments. Moreover, without these fundamentals in place, it is foolhardy to speculate about the potential effectiveness of strategic positioning or aggressive industrial policies. None of the countries that have successfully pursued IP has suffered from poor macroeconomic management. Resource allocation has been steered in many cases, but not to the detriment of overall market-determined prices. And corruption, although it has varied, is a drag on development, whatever the growth rate might be, and hence has to be curbed. Put differently, a developmentalist state that is corrupt will not yield better economic outcomes.[24]

The primary prerequisite for success is being able to link longer-term strategic directions with medium-term economic management, and this may require the coordination of economic ministries under single senior leadership of a deputy prime minister or equivalent, the clear vision of where the country wants to be in 10 years time, reliance on technocrats rather than politicians to implement policies, and the monitoring of those policies on a systematic basis.[25] These should be seen as necessary, not sufficient conditions and this prescription has not changed much over time, nor, in my view, will it. What has changed, however, is the previously held belief in the advanced economies that unfiltered markets will yield optimal results and broad improvements in welfare. The U.S. is a clear example showing how weakened regulation, asymmetric management of moral hazard behavior versus bailouts in the financial sector, tax avoidance, and basic perversions of good government by lobbyists has robbed the capitalist mantra of some its gloss.[26]

Does this imply that the state should take over resource allocation decisions? The answer lies in the assessment of how effectively governments work, how able they are to execute without corruption, and how willing the population is to accept a longer-term vision of where the economy is headed. And of course, in democratic societies, the ability of a minority to disrupt can short-circuit needed reforms that preclude getting to the longer-run. Therefore, the prerequisite for a debate on policy directions begins with the effectiveness of government and its ability to construct alliances that allow for policy change, while providing sufficient benefits to the public to allow for longer-term policies to take root.

Controversial issues for the future

With the slow-down of global trade and the advent of less labor-intensive technologies, how to employ populations in parts of the world where the labor force is still growing is a challenge. To place the burden of job creation on exports may no longer provide a sufficient answer, and the alternative of public sector employment has proven disastrous in most circumstances. Hence, the answer lies in promoting the private sector, particularly in services; however, these services have to be at standards that are globally competitive, just like the standards in the production of goods. Protecting the development of these industries/services could make sense if there were regional markets to support them and if they quickly got both to scale and to the technological frontier. With digital industries, both goals are nowadays more easily achievable.

Government support for technology development and skills acquisition could work, but only if government has a stake in the activity that goes beyond taxation. The solution might be new types of SOEs along Singaporean lines, for example.

For countries that are too small on their own, regional cooperation is more important than ever. Unfortunately, very few regional agreements appear to work efficiently and there is a reluctance or inability to allocate resources effectively across countries due to national domestic pressures. Yet, to deal more ably with very large foreign firms as well as very large countries (for example, China), a regional configuration may be necessary. Regional blocs would need to avoid the Mercosur phenomenon of protection and insularity while capturing the potential benefits of scale and improved negotiating muscle. This approach is a departure from the global openness advocated by GATT/WTO that has served some countries well, other countries not very much, and is now irreparably damaged and being replaced by bilateralism and national interests.

The attractiveness of sovereign wealth funds has increased over recent decades, and the current state of the world economy may well make them more important with the important proviso that their governance can be secured. Increased uncertainty in terms of global prospects, global prices, and world interest and exchange rates makes savings outside of national borders more beneficial. Greater uncertainty increases the utility of rainy-day funds. Resource-rich countries in particular need to rely more on offshore savings, and eventual aging of the population means that future dependency ratios will suffer, and future tax bases will be inadequate. Hence more saving and less consumption now, and more sequestering of savings off-shore may well yield higher future benefits.

Rising national income inequality is a predictable phenomenon as seen in the advanced economies. This phenomenon will be replicated in the middle-income countries soon. Global trends can accentuate these shifts, as labor is displaced by technology, as new winner-take-all industries emerge, and as state capitalism promotes new winners. Redistribution is hard and requires a social consensus not seen outside of some European countries, so that governments will be faced with lower support for strategic priorities and forward-looking policies.[27] I would argue that economic gains will increasingly be captured by a few unless governments take equity stakes in businesses. This can be done through venture capital funds and other means; however, the examples of telecoms, where monopolies flourish and tax receipts falter, or digital businesses, where scale provides dominant market positions that are hard to dislodge and where regulation is untested, lead one to speculate that government-business relationships need to be revised in many countries. Without ownership stakes, the necessary redistributive policies needed to maintain societal harmony will face a shortage of fiscal resources.[28]

Conclusions: What may be different going forward

Governments will interfere in markets more, but the key is how they will do so. A new business-government model may be necessary with government entrepreneurship being more common. Keys to success are better governance, more private sector-led innovation, and possibly some public stakes in new ventures along with the means to capture and redistribute the benefits of disruptive technologies. Actions by Germany recently to develop a new National Industrial Strategy 2030 that include provisions to protect firms from takeovers by China, to develop and maintain national champions, and to insert government much more directly in the fortunes of corporations is one such concrete response.[29]

Trade policy will continue the recent trend of being more bilateral and regional, in clear contrast to the previous five decades or more, and national goals will dominate global goals. In Dani Rodrik's terminology, we will see a diminution of hyper-globalization.[30] The key to limiting the cost of this shift is to see national policies in a competitive environment so that global standards of efficiency are sought and achieved. Moreover, continued support for globalization will require better national redistributive policies.

Governments will think more about Michael Porter and less about David Ricardo when seeking their advantageous positions, implying more strategic investments, more selective protection, and greater support for new industries and services. The issue of where to seek this competitive advantage is fundamental to success as are the incentives used, their duration, and the efficiency of domestic economic activity.

A greater concentration of wealth seems inevitable in light of new industries/services and the dominance of key economic actors. Given the link between wealth and future income (or conversely, the diminished opportunities in a world of high wealth concentration), societies will be more stressed to find common ground and governments, especially democratic or pluralistic ones, will face greater difficulties governing unless they can effectively deal with increasing concentrations of wealth.

Global governance and common action on global issues, ranging from climate change to migration, will become more problematic and new blocs of shared political interests will likely be necessary. The U.S.-dominated global economy will give way to a bi-polar economic alignment with a large Chinese-dominated economy as presaged by the BRI, and governments will be forced into new strategic alliances. Ideologies like neoliberalism are less relevant in such a configuration of dominant economic actors and a greater range of national policies will likely emerge.

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[1] See Rodrik (2017) for views on neoliberalism.
[2] See Marcuzzi and Terzi (2019) on multinational firms eclipsing nation-states.
[3] This imbalance caused by excessive market concentration was discussed more than a decade ago by Baumol, Litan, and Schramm (2007).
[4] For more on BNDES, see de Bolle (2015).
[5] See World Bank (2019) for a fuller account of policies and Leipziger (2017) for an outsider's view of industrial policy in Rwanda.
[6] See Rodrik (2018) on trade policies more generally.
[7] See World Bank (2008) and Hallward-Driemeier (2010) and (2015).
[8] See, for example, Chhibber (2017) on the case of Indian state enterprises.
[9] See Leipziger, Dahlman, and Yusuf (2017) for a preview of trade frictions and its possible implications as well as Economic Policy Uncertainty Index (2019).
[10] See Leipziger (2019).
[11] See Gurley, Morris, and Portelance (2018) for some recent estimates of over-indebtedness.
12 See Hillman (2018) for an assessment.
[13] See Leipziger (1999), the extensive work by Rodrik (2004) among others, and the views of the Commission on Growth and Development (2008).
[14] See *The Growth Report* (2008) and the Commission on Growth and Development (2009).
[15] See Brady and Spence (2010) on the role of leadership and vision.
[16] See Leipziger (2018).
[17] See Aghion and Cage (2012).
[18] See Constantinescu, Mattoo, and Ruta (2015).
[19] See Dahlman (2017) on technology, jobs, and growth in a new global environment as well as Dobbs, Manyika and Woetzel (2015), among others.
[20] See the Pathways for Prosperity Project for Sub-Saharan Africa (2018).
[21] See Stiglitz (2002, 2012, 2018) on globalization, its implications, and fairness.
[22] See Tirole (2019) for a new view on how to regulate.
[23] See Indian Business School (2009).
[24] See Kauffman et. al. (1999) on global governance trends and their implications.
[25] See Commission on Growth and Development (2008).
[26] There is no dearth of opinions by pundits on what ails capitalism, ranging from the popular economic press to those with more ideological views. Suffice it to say that virtually no one argues that the current state of affairs is either optimal or perhaps even sustainable. A useful beginning at least for the U.S. is to peruse the work of Piketty, Saez, and Zucman (2016).
[27] See Guriev, Leipziger and Ostry (2017) and (2018) for some concrete suggestions.
28 This problem for governments is made worse by tax havens that reportly allow up to 40% of profits by OECD firms to be diverted. See Torslov, Wier, and Zucman (June 2018).
[29] See proposals by Minister Altmaier of Germany announced in February, 2019 and the positive reaction of the FT editorial (2019).
[30] See Rodrik (2011).

3. Inequality beyond neoliberalism

Policies for more inclusive growth

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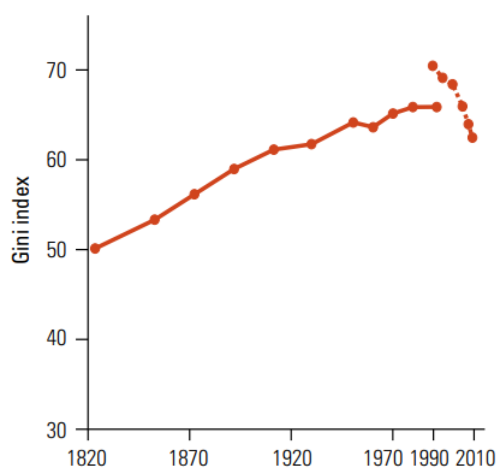
Global trends in inequality

The last 25 years saw large increases in living standards and declines in extreme poverty globally. As of 2015, 736 million people, or 10 percent of the global population, lived on less than $1.90 per day.[1] In 1990, the corresponding figure was 36 percent.[2] Progress was slower at the higher poverty lines of $3.20 per day (relevant for lower middle-income countries) and $5.50 per day (relevant for upper middle-income). About one quarter of the world is poor under the former, and almost one-half under the latter.

This reduction in global poverty resulted from strong inclusive growth in developing countries as they integrated into the global economy. Incomes of the poorest 40 percent grew in 60 out of 83 countries measured.[3] In 49 out of 83 countries, the poorest 40 percent grew faster than the top 60 percent. Open trade and globalization were fundamental enablers of this strong growth, especially for East Asia and India.[4]

The last 25 years also saw a decline in total global inequality (that is inequality across all individuals in the world). While global inequality remains high, this period witnessed the first ever decline in total inequality since the industrial revolution (see Figure 1).[5]

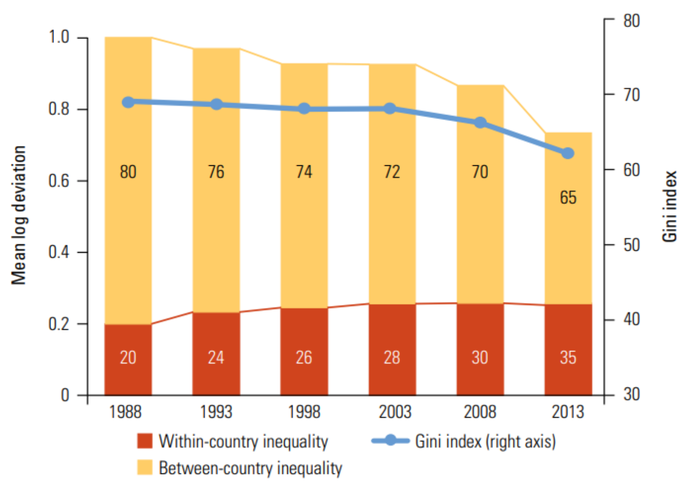
Figure 1: Global income inequality, 1820-2010



Source: Bourguignon (2015)

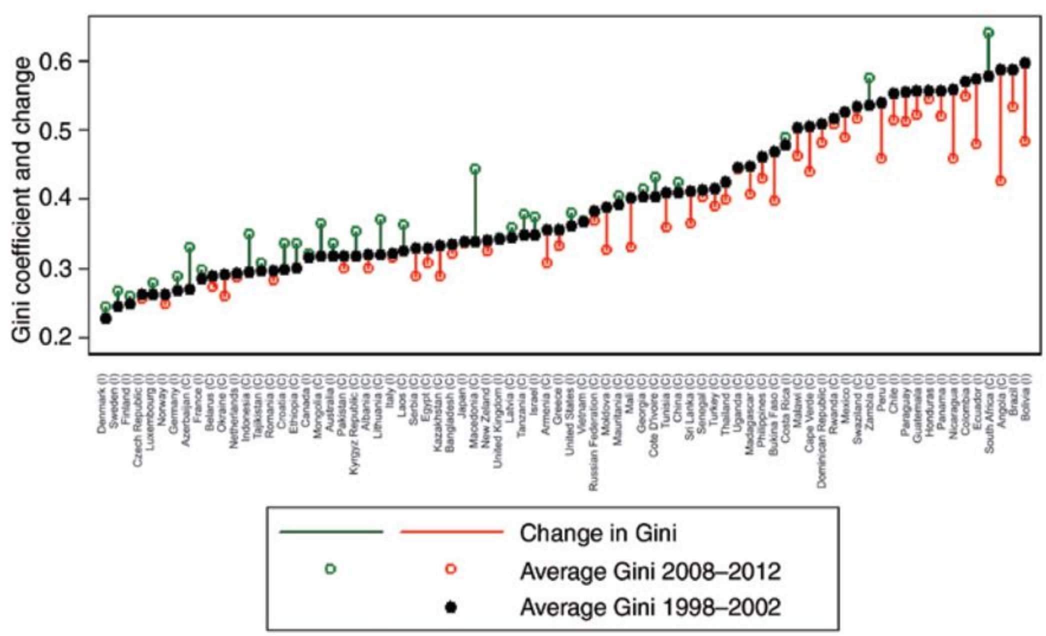
The reduction in total global inequality was driven by the reduction of between-country inequality (see Figure 2). In contrast, progress on within-country inequality has been mixed (see Figure 3). Encouragingly, in 45 out of 78 countries with data, within-country inequality declined between 2000 and 2010, with notable achievements across Latin America.[6] However, 30 countries experienced an increase in within-country inequality, importantly some advanced economies, where the poor and middle class have seen stagnant income growth for the past two decades.[7] Despite the overall positive global trend, the increase in within-country inequality in advanced economies has dominated the global discourse over the last few years.

Figure 2: Global inequality, 1988-2013



Source: Lakner and Milanovic (2016), based on calculations from PovcalNet

Figure 3: Change in Gini by country, 2000-2010

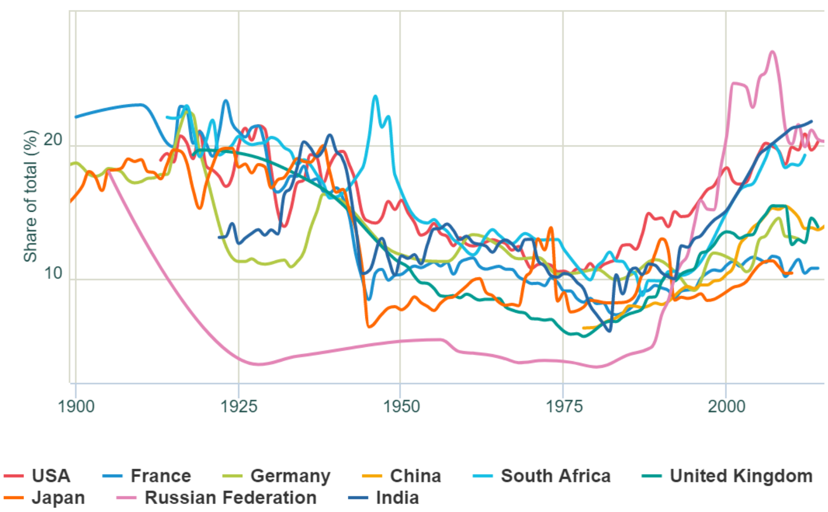


Source: Lustig (2016), data from OECD Income Distribution Database, PovcalNet, and Socio-Economic Database for Latin America and the Caribbean

We have to caveat these facts on the evolution of global inequality in several ways.

First, the data do not capture what happened to top incomes, as estimates from household surveys under sample top earners. When we include income growth at the top end of the distribution, the rise in within-country inequality becomes much starker. Figure 4 depicts the income growth of the top one percent across a handful of advanced and emerging economies. Many countries have seen a swift uptick in the share of income going to the top earners since the 1970s—South Africa, for example, has seen its top income share double in 20 years, and it is now on par with the United States, Russia and India (where the share of the top one percent has also increased sharply).[8] The global top one percent are no longer relegated to advanced economies either; the representation of developing countries among the top one percent has risen significantly since 2005 and developing country elites now account for 22.6 percent of the global one percent.[9]

Figure 4: Top 1 percent of national income share



Source: WID (2017)

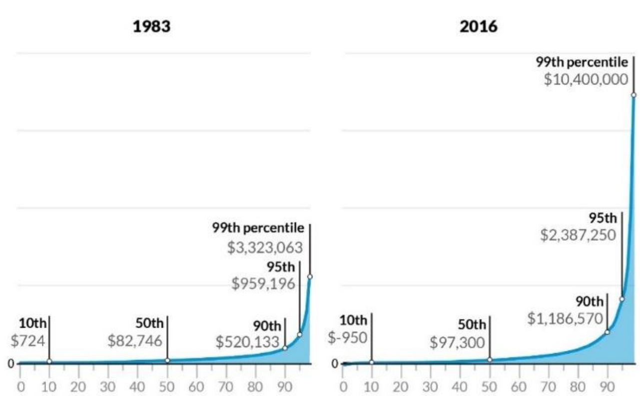
Second, the fact that global inequality is falling stands at odds with the perceptions of people—that is with subjective perceptions of inequality. The average person on the street in many countries thinks that inequality is higher than it is; and that is has increased. For example, the average German underestimates their position in the income distribution by more than 20 percent, believing they are poorer than they actually are (see Figure 5).[10] Technology, specifically social media that exposes people to increasingly divergent lifestyles and opportunities, has exacerbated perceptions of inequality around the world.[11] Other evidence suggests that people care about absolute inequality and about the extremes more than they care about relative inequality.[12] According to survey results from Europe and Central Asia, people feel that economic gains at the lower end of the distribution are smaller than gains at the top, leading to perceptions of increasing absolute inequality.[13]

Figure 5: Difference between perceived vs actual inequality

Source: Bublitz and Dumont (2016), data from
Bertelsmann Stiftung survey compared to EU SILC/LIS data

Finally, focusing on incomes ignores what has happened to wealth. While a paucity of data on wealth in developing countries prevents us from being able to do a rigorous comparison across countries and over time, evidence from a few select countries suggests a greatly skewed concentration of wealth at the very top. For example, Saez and Zucman (2016) show that wealth inequality in the US has exploded in the last few decades, reaching levels comparable to the 1920s (see Figure 6). In a similar vein, estimates by Credit Suisse suggest that the richest one percent owned 50 percent of global wealth in 2015.[14] This global wealthy class is increasingly diverse: 14 percent of the 2016 Forbes World Billionaire's list were Chinese (up from zero in 1996), and 35 percent were from developing or emerging economies. A recent study by Alstadsaeter et al. (2017) sought to estimate the amount of household wealth owned by each country in offshore tax havens to gain a more accurate picture of the global wealth distribution. They estimate that 10 percent of global GDP is held in offshore tax havens, with rates reaching 60 percent of national GDP in some Gulf and Latin American countries. Including these offshore wealth estimates increases inequality dramatically, as the richest 0.01 percent in the U.K., Spain and France, for example, hold 30-40 percent of their wealth offshore.

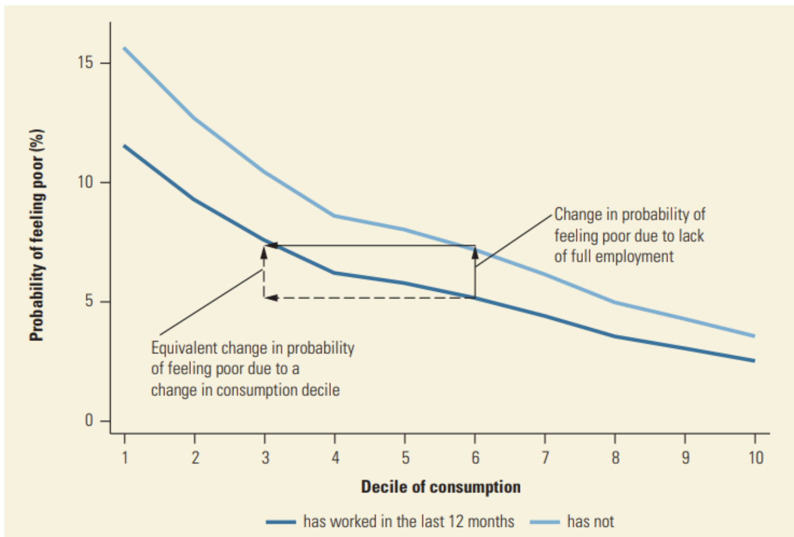
Figure 6: Distribution of US family wealth, 1983-2016



Source: Urban Institute (2017), based on calculations from the Survey of Consumer Finances

Increased inequality is one source of discontent with the neoliberal model. The growing polarization of labor market outcomes in many advanced economies and continued market duality in emerging and developing ones is another source. As articulated in the World Bank's 2013 World Development Report, jobs are not just a source of income, but also a source of dignity, social status and security for the future. Analysis of subjective perceptions of poverty suggest that losing a stable job is associated with a perceived loss of welfare equivalent to falling three deciles in the income (consumption) distribution, much more than the actual decline in income (see Figure 7).[15] This perceived loss of wellbeing decreases trust in the current political and economic systems; indeed, rising unemployment and job insecurity are associated with increased votes for anti-establishment parties.[16]

Figure 7: Relationship between job stability and the probability of feeling poor



Source: Bussolo and Lebrand (2017)

Also contributing to the discontent is a sense that the system is "unfair." According to a recent survey in Europe and Central Asia, over 20 percent of male and female respondents believe that good connections are the number one driver up upward mobility.[17] This contributes to the perception that wealth and opportunity are concentrated amongst a few who "luck out" based on circumstances of birth. Higher perceptions of inequality, unfairness, and distrust in public institutions are associated with lower perceptions of subjective economic mobility, or the belief that one can rise above the economic bracket into which they were born.[18] This economic pessimism has even infiltrated the United States, where the ideal of the American Dream had previously helped preserve a unique sense of optimism about the prospects of economic mobility.[19] The latest Census Bureau report in the United States revealed that while median household incomes rose 1.8 percent in 2017, real median wages actually fell by 1.1 percent, indicating that people are working longer hours in order to take home more money.[20] While poor and middle class wages were falling, the rich saw their incomes grow by 9.3 percent from 2000-2017, in the midst of the Global Recession.[21] Indeed, top capital and labor incomes have become more closely associated since 1985, such that top capital- and top income-earners are increasingly the same people—which was not the case prior to 1985.[22] This rising association has contributed to the accumulation of wealth at the top, exacerbating the effects of rising inequality within capital incomes and earnings.

The neoliberal model traditionally emphasized the idea that some degree of inequality in outcomes is necessary to reward risk taking and effort. Unequal outcomes can motivate entrepreneurs, innovators and workers and compensate them for taking risks. This is “good” inequality. In contrast, deeper structural inequalities, such as inequalities in opportunity, are “bad” inequalities that lead to inefficiency. This distinction between good and bad inequalities is still relevant, but insufficient to frame the problem of excessive inequality. The scale of the accumulation of income and opportunities at the top that we see today seems to swamp any possible underlying gap in productivity and effort, and instead is likely to reflect economic rents, lack of competition, and in some countries, perhaps the capture of institutions and the policy process by privileged groups.

Drivers of inequality and discontent

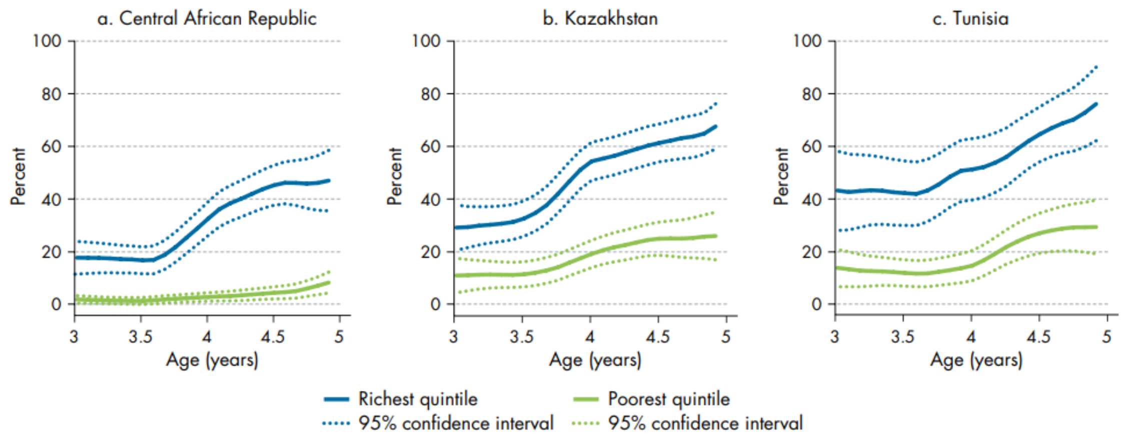
How can we explain the sharp rise in within-country inequality in those places where it has occurred? The current debate on inequality points towards a range of factors, some of them mutually reinforcing. These range from the persistence of deep inequalities of opportunity in the accumulation of human capital, to the role of superstar firms with market power, and the impact of technological change. Another set of drivers are institutional, notably the decline of organizations that gave workers voice and bargaining power, and the negative impact of globalization on the ability (or willingness) of governments to tax corporate profits to support a broad and generous social safety net. To make sense of these explanations, it is useful to break down the drivers of inequality into what we could call “pre-distribution” or inequality of opportunity, “in-distribution” or market inequality, and “post-distribution” or taxes and transfers.

Pre-distribution: Inequality of opportunity

When inequalities of opportunity are deep and entrenched, and passed down from one generation to the next, the pool of human capital in a country is constrained. This is bad both for equity and efficiency. Arguably, inequality of opportunity declined across the globe in the last few decades as developing countries invested heavily in expanding access to schooling. As measured by years of schooling, educational inequality within countries fell across the world in the last six decades. For developing countries, the GINI for years of schooling declined from 0.73 to 0.36. For advanced economies, it declined from 0.38 to 0.19.[23] This should have contributed to reduced inequality, and indeed, in those countries where within-country inequality fell during the past 20 years (such as Mexico and Brazil), increased access to education played a key role.

However, years of schooling is an imperfect measure of human capital. While access to education may have equalized across and within countries in the past few decades, the evidence suggests that quality of education has not. Despite the notable rise in years of schooling across the globe, there is still a very large gap in learning between rich and poor countries and between rich and poor children (see Figure 8). This has a direct impact on lifetime earnings and inequality. A recent study of the European Union (EU) suggests that two-fifths (and in some cases one-half) of all inequality in disposable labor earnings can be traced back to factors over which individuals have no control, namely parents’ education level, sex and ethnicity, and location of birth.[24]

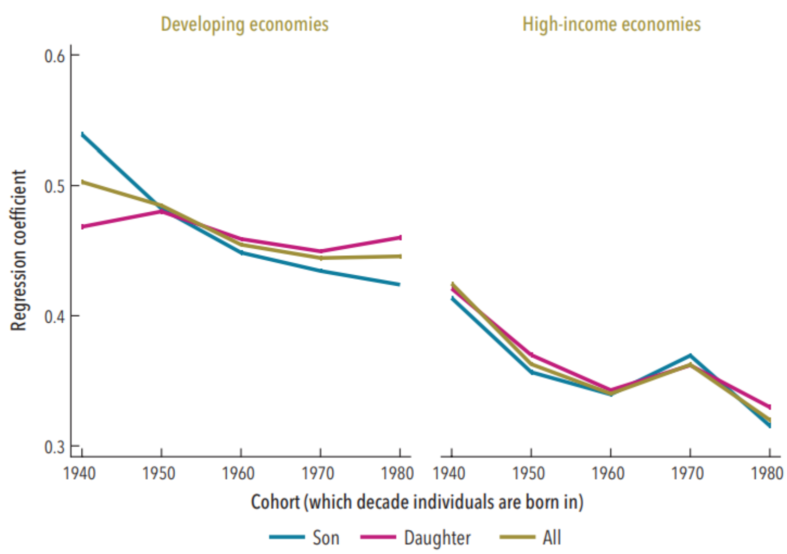
Figure 8: Percentage of children age 3-5 who can recognize 10 letters of the alphabet, by wealth quintile



Source: World Bank (2018b)

These inequalities in educational opportunity are sticky and persist from one generation to the next. In particular, relative educational mobility (whether a child's position in the educational ladder is independent of the situation of her or his parents) has remained low and persistently so in most countries (see Figure 9).[25] This, in turn, is associated with low relative income mobility and higher inequality.

Figure 9: Intergenerational persistence in education—relative mobility (higher IGP indicates lower mobility)



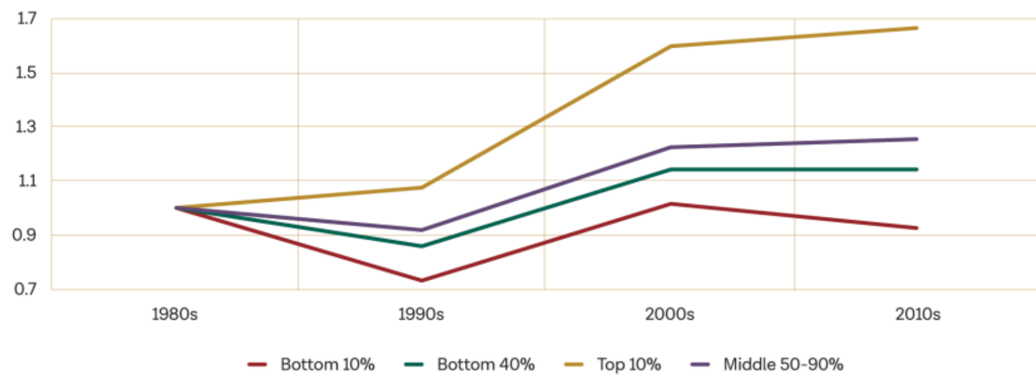
Source: Narayan et al. (2018)

In-distribution: Increased polarization in the labor market

Inequality of opportunity has interacted with shifting demands for skills to give rise to increased polarization in the labor market in many countries.[26] While wage inequality decreased in a number of developing countries over the past two decades (examples include Chile, Mexico, and Brazil), wage inequality in many advanced economies and in some emerging economies, such as China and Russia, increased.[27] The rising trend in wage inequality in the United States since the 1970s has been extensively documented.[28] One of the most marked features of this rise in advanced economies is that the gap has mainly grown at the top – that is, between the 50th and 90th percentiles.[29] Some attribute this to the emergence of (and increased concentration of) profits among large superstar firms with market power. This market concentration creates winners and losers in the economy, as gains are shared with superstar firm employees but not with others.[30] This hypothesis is supported by the fact that returns earned by firms at the 90th percentile are now six times larger than those of the median firm.[31]

Even in the much more regulated labor markets of the EU, the gap between high and low wage earners is growing (see Figure 10). This suggests, as in the U.S., the interaction of underlying inequality of opportunity with rising demand for non-routine cognitive skills and the economics of agglomeration around superstar cities/firms.[32]

Figure 10: Trends in individual earnings by segment of the household income distribution, EU average, 1980s-2010s (index, 1980s=1)



Source: Ridao-Cano and Bodewig (2018), data from Luxembourg Income Study (LIS)

Other explanations suggest that institutional changes, such as the deregulation of labor markets and the decline of unions, also played a role in rising market inequality.[33]

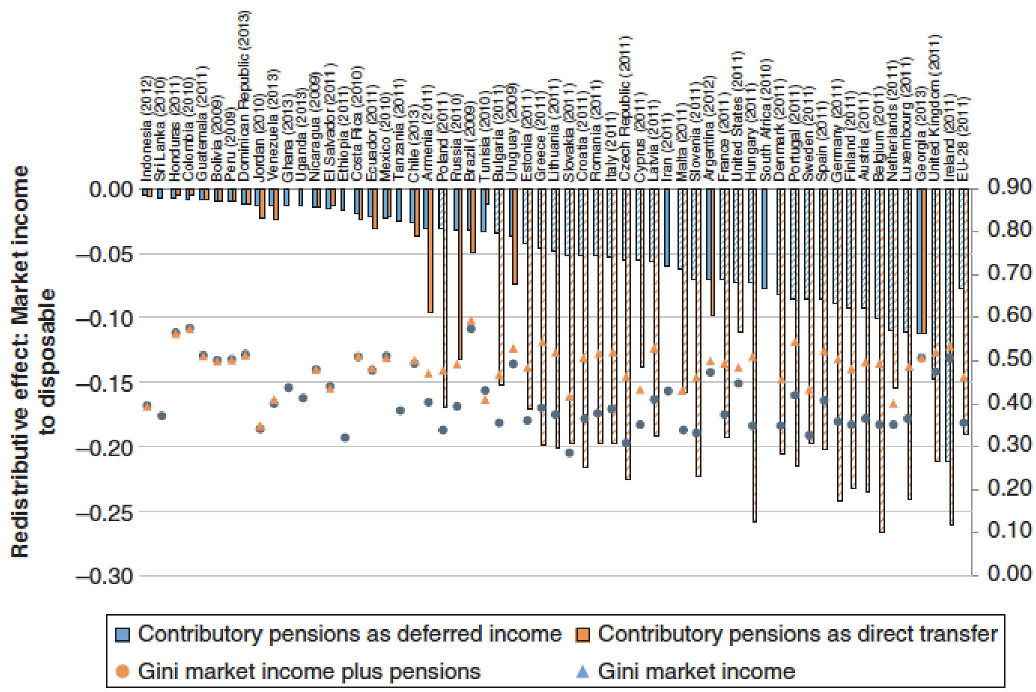
Additionally, recent research suggests that financial deregulation may have contributed to rising inequality through its impact on the incomes of top earners. Philippon and Reshef (2012) find that a sizeable part of the relative wage increase in the U.S. since the 1970s can be attributed to financial market deregulation, due to the growth in the number of and wages of highly remunerated finance executives. This effect has also been documented in the U.K. and Japan, and it seems likely to have played a role in other high-income economies as well.[34] In emerging and developing economies, where access to financial services is much less widespread, extreme financial market deregulation may have also contributed to inequality. Das and Mohapatra (2003) find that liberalization efforts typically benefit top income earners in emerging economies, while the middle class lose out and the poor remain largely unaffected. Further cross-country studies suggest that, while the impact of financial liberalization on inequality depends on the level of financial development in a country and the quality of political institutions, liberalization generally increases inequality.[35] Moreover, as documented by Daniel and Jones (2007), financial sector liberalization in developing countries often leads to banking crises, due to the interaction of rapidly growing net worth among banks, the declining marginal productivity of capital, and the degree of foreign competition in the financial sector. Banking crises, in turn, tend to be associated with increased inequality due to falling wages, relative price changes, and fiscal retrenchment which leads to cuts in social spending.[36]

Post-distribution: Declining role of taxes and transfers

High-income countries do a lot of redistribution. In advanced economies, direct taxes and transfers reduce inequality by approximately one-third.[37] Developing countries do much less redistribution due to lower and less progressive tax systems (see Figure 11).

There has been substantial debate in the development arena about the need for developing countries to improve their resource mobilization and tax base. Indeed, stronger tax systems can play an important role in expanding and sustaining social protection programs, which can help reduce inequality.[38]

Figure 11: Redistributive effect of pensions on Gini coefficient in developing and advanced countries, 2010



Source: Lustig (2018), data from CEQ Data Center on Fiscal Redistribution

However, there are questions as to how much countries can redistribute via taxes and transfers in a world that is highly globalized. Even in high-income countries, there is a push towards much lower taxes. Between 1985 and 2018, the global average statutory corporate tax rate fell from 49 to 24 percent.[39] Globalization complicates the taxation of multinational firm profits. Some estimates suggest that close to 40 percent of multinational profits are moved to tax havens each year. [40] Countries now compete for multinational business with lower tax rates.[41] The race to lower taxes may impede countries' ability to expand existing social programs and social protection systems in ways that could temper rising market inequality.

What policies can help reduce inequality?

On the one hand, strong economic growth in the developing world was the main driver of the decline in global poverty over the past 25 years. Its impact on inequality, on the other, was largely neutral.[42] Continued poverty reduction requires continued strong growth, but it also requires that growth be inclusive. Policies to tackle inequality must do so in a way that supports rather than undermines growth. This is not impossible, as many of the policies that are good for equity are also good for efficiency. For example, policies to address inequality of opportunity increase both equity and efficiency and are thus a win-win. Policies that ensure markets work fairly (e.g. do not discriminate against the poor) and competitively (e.g. do not allow for the accumulation of excessive economic rents) also meet both criteria. A focus on win-win policies that are good for both equity and efficiency fit naturally into the neoliberal model (for further discussion, see the 2016 World Bank Poverty and Prosperity report).

At the same time, in a world where capital is highly mobile and labor is not, and where technology is changing at an ever-increasing speed, there may be a need to strengthen policies that protect workers and provide an income floor for those at the bottom, even if those policies come at some short-term cost to growth. Failing to protect workers and ensure a decent standard of living for all members of a society, especially those who are losing out due to globalization and rapid technological change, may jeopardize the very drivers that have enabled the past three decades of growth and prosperity.

A number of economists have argued, moreover, that in the absence of active interventions by governments, it will be extremely difficult to stop the rising concentration of wealth and income at the very top.[43] There is a risk that this rising concentration of wealth and income leads to the capture of institutions, markets and policy-making processes, which would make the prospect of government interventions to reduce inequality less likely. This is where the neoliberal model needs a deep rethink.

How do we make market-driven growth more pro-poor and inclusive? First, we must reduce inequality of opportunity and its intergenerational transmission. Second, we need new policies to correct the failure of the labor market to provide decent employment and earning opportunities to a growing swath of the workforce in many countries. Third, we need progressive taxation and spending, but as a complement to—not a substitute for—policies that address the two core drivers of inequality.

In practice, this means:

1. **Policies to develop the human and physical assets of the bottom 40 percent,** starting with policies that equalize opportunities and build human capital. One example: Early Childhood Development policies to promote physical, socioemotional, language and cognitive development in the early years. Children in poor households need this the most but get it the least. In a study of 27 developing countries, preschool enrolment rates for the poorest quintile of the population were less than a third of rates among the richest quintile.[44] Nutrition interventions and interventions to support parenting skills are also important, as is ensuring that high quality educational services reach all children, not just those who can afford it. In a recent study, Narayan and van der Weide (2018) find a positive association between the share of GDP spent on public education and inter-generational mobility. Another study finds that differences across EU countries in inequality of opportunity are also strongly associated with how much countries spend on education, especially pre-primary education, relative to GDP.[45] In developing countries, additional instruments such as conditional cash transfers

(CCTs) are useful in supporting investments in human capital among the poorest households.

2. **Policies and regulatory frameworks that ensure that markets are working fairly for everyone.** This means reducing market power concentration and rent seeking behavior among firms. A recent World Bank report highlighted the need to establish a level playing field or equality of opportunity between firms.[46] In some countries, this may mean less business regulation in order to foster a more business friendly environment. In others, it may mean the exact opposite. In both cases, the quality and transparency of institutions that regulate and supervise markets and competition are a key factor for success. Within financial markets, the establishment of strong supervisory agencies and prudential regulation are critical, as they can help moderate the risks of banking crises down the line, and their potentially devastating impact on inequality. This is especially necessary in in developing countries with shallower markets and weaker regulatory institutions, where the risk of financial crisis due to rapid deregulation is even greater.

3. **Support for some basic regulation of labor markets and basic labor market institutions.** Workers need better conditions from which to negotiate with employers. In more developed labor markets, there is a role for minimum wages, for a core level of employment protection legislation and for mechanisms to protect workers from the impoverishing effects of job loss, increasingly brought on by technological change. These protections have to be flexible and distributed evenly across workers; not, as is the case today in many countries, in a way that creates a dual market of protected insiders and unprotected outsiders. With the rise in labor saving technology, the state should explore ways to regulate technology-driven growth in ways that balance the competing need to promote economic growth and innovation yet limit worker displacement and unemployment. Some have suggested a form of time-limited wage insurance to compensate displaced workers for a portion of lost income.[47] Others, including Bill Gates, have proposed a more radical “robot tax,” taxing companies who use labor saving technology in an effort to slow workforce automation.[48] In less-formalized labor markets, there is still scope for a minimal set of labor standards that include societal level minimum wages, basic health and safety conditions. The Cambodian apparel industry provides an illustrative example of how governments can successfully introduce both at very low-income levels.[49]

4. **Policies to build a strong and resilient middle class.** “Building a strong and resilient middle class,” in the words of Lustig (Forthcoming), is a critical element in reducing inequality. Globalization has created opportunities for many, but advanced and emerging economies alike have done a poor job protecting those who lose out due to expanded global trade and technological advancement. There is a need for more effective social protection mechanisms to protect workers and the existing or emerging middle class from shocks in both high income and developing countries. In high income economies, where extensive welfare systems already exist, protecting the middle class will require adapting existing social protection programs to the changing nature of employment relationships—in effect, de-linking access to welfare systems from employment contracts, both in terms of eligibility and of financing. In middle income countries with incomplete social protection systems, delinking welfare systems and worker protection from the employment contract is especially important in light of large informal sector employment and frequent worker transitions between the formal and informal sectors. Moving towards universally accessible benefits would both protect the middle class from the impact of job loss and increase

protections for those at the bottom of the distribution. In low income countries, where social protection programs are for the most part nonexistent, such programs need to be created, learning from the growing experience with non-contributory social transfers around the world. It may actually be easier to build these systems from the ground up in low income settings, rather than deconstruct existing programs in middle- and upper-income economies.

5. **Development of more effective short- and long-term training policies for individuals who have left the schooling system.** The demand for skills is changing at an accelerated rate. Workers who have long since left the schooling system need mechanisms to facilitate skills upgrading and retraining. Yet existing training systems are ill-equipped to address the challenge of reskilling adult and older workers. Emerging lessons from successful experiences around the world suggest the need to use experiential and on-the-job training rather than classroom instruction. Broader and more flexible options for post-secondary schooling are also needed, which allow for more movement back and forth between the labor market and school. In this vein, the model of "stackable credentials" tried in some US states seems promising.[50]

6. **Mobility policies (to help people move from poor areas) and policies to support lagging regions.** Spatial disparities in labor market and income earning opportunities are large in many countries. The process of economic development may, over time, work to close these gaps as people and resources move to areas with better opportunities, but the adjustment is slow and bumpy. Moreover, the patterns we see in high income economies suggest that technology and the nature of economic agglomeration can, at times, work to increase these gaps rather than reduce them. For example, many researchers have highlighted the growing divergence of educational and labor market opportunities across regions in the United States and in much of Europe. Barriers to labor mobility, even within a single country, emerge from many sources: lack of skills, housing markets, non-portable social benefits, and family or community-based coping systems. Policies can help facilitate movement to more productive areas by tackling some of these barriers: for example, targeted college scholarships, housing credits, and portable social benefits. Some economists have also argued in favor of renewed place-based policies to support opportunities in lagging regions. Some ideas include public investment in physical and human infrastructure in lagging areas, measures to spur productivity growth in lagging regions (better business environment, institutions and investments in R&D), geography-based employment subsidies and strengthening inter-governmental transfers.

7. **Expansion of progressive transfers.** In more formalized settings, in-work or earned-income tax credits or some form of graduated social assistance can be combined with activation measures to support re-employment. In developing countries, these transfers need to fit the local context: worker tax credits may be feasible in some middle-income settings, while targeted social assistance (unconditional or conditional cash transfers) with a graduated cut off may be better in others. As part of this transfer expansion discussion, many have debated the merits of a universal basic income (UBI), which would provide cash to recipients with limited targeting and no conditions.[51] UBI would not act as an alternative to public education, health, and social service investments, but as a complement, designed to replace various income support programs by streamlining implementation and reducing administrative costs. Regardless of context, a targeted scheme is both more affordable than UBI and

offers less of a disincentive effect. Ironically, UBI may actually be a better option in developing countries with large poor populations than in high-income economies, due to UBI's reduced administrative costs and broader coverage of the poor. Indeed, the Indian government is exploring the idea of replacing its patchwork of social protection programs with a UBI, a move they claim would better target the poor by avoiding benefit leakage and misallocation.[52] Rahul Gandhi, president of the Indian Congress, has made UBI a core pillar of his party's platform in the lead up to the May elections.[53] UBI schemes have been administered with some success at the local level, but most national implementation attempts have failed after a year or two due to fiscal constraints, and thus at this point seem a less efficient option than other more targeted programs.[54]

8. **More effective use of tax policy.** To finance a more progressive social safety net system, governments will need to raise additional revenue. Various solutions have been proposed, including increased taxes on the wealthy, higher property taxes, and carbon taxes. Developing and emerging economies have largely failed to effectively utilize taxes as a means of redistribution due to small tax bases, large informal economies, and the low capacity of national tax administrations.[55] Despite these challenges, much can be done to increase the efficacy of existing tax instruments while building government capacity to utilize additional tools in the future. With respect to personal income taxes, there is a room to both broaden the tax base while reducing or capping exemptions and reductions that favor the top of the distribution. In many middle-income countries, there is also scope for more progressive marginal tax rates. Corporate income taxes represent a potentially large source of revenue for developing countries, but considerable international cooperation is needed to combat tax evasion and limit capital flight to tax havens. In this vein, the OECD is working to bring together both developing and advanced countries to develop a modern international tax framework to combat base erosion and profit shifting while promoting transparency and information sharing efforts.[56] Some tax instruments remain highly underused in developing country settings, such as inheritance and property taxes. Property taxes represent an attractive financing mechanism for developing and emerging economies, because unlike capital, property is largely immobile and thus cannot be moved outside of the country. [57] Studies generally find that property taxes are largely progressive, as land and capital owners are typically higher income individuals.[58] However, property taxes do have relatively high administrative costs since they cannot be self-assessed, though new technology and improved land registration records may ease this burden moving forward.[59] Finally, some have proposed utilizing taxes on environmental externalities to fund social safety net programs. OECD research suggests that, on the one hand, transport taxes are largely progressive for the bottom half of the distribution, as poor households are less likely to own a vehicle and hence spend a lower proportion of their income on fuel taxes.[60] Taxes on electricity and heating fuel, on the other hand, tend to be regressive, and thus represent a less promising redistribution mechanism without some sort of minimum consumption threshold. However, the efficacy of any of these environmental taxes also depends on the removal of distortive energy subsidies, especially common among energy producing countries.

Conclusion

It's time to reframe the narrative on inequality. Overall, the trends are not as dire as the global rhetoric contends; total global inequality has declined and within-country inequality has fallen more often than it has risen. The countries that experienced a decline in inequality did so largely by adopting some combination of the above policies; Latin America, for instance, heavily invested in education to reduce inequality of opportunity.

However, the next 25 years of poverty reduction efforts will require concerted policy efforts to ensure that growth is inclusive and pro-poor. There are real structural inequalities in the economy, both at the global and country level, that prevent the poor from rising to the middle class and leave the middle class vulnerable to shocks. The growing populist movement in advanced economies is a predictable and to some extent understandable response to stagnating wages, middle class contraction, and worker displacement. Yet populist policies are likely to make the problem worse in the long-run, not better. To combat this growing discontent, governments will need to play a more active role, tackling pre-distribution, in-distribution, and post-distribution inequality. The interconnected nature of global financial and labor markets today requires greater international cooperation in order to implement meaningful market regulation and taxation policies. Recent OECD transparency efforts of this nature represent an important step forward. Advanced and high-middle income economies need to tackle the growing concentration of wealth at the top of the distribution while investing in worker protection and retraining efforts. Additionally, policymakers in wealthier nations need to ensure that domestic responses to rising inequality do not inadvertently lead to increased inequality in emerging economies. Low- and middle-income economies should focus on investing in quality education to reduce inequality of opportunity while strengthening regulatory and social safety net protections for workers. Encouragingly, low- and middle-income countries may have an easier time enacting such policy changes, as it is easier to construct a new system than reform existing programs. Equity initiatives are not anti-neoliberal, but in fact can go hand in hand with efficiency policies to promote inclusive growth. However, such outcomes are not inevitable, but require a strong state role to ensure gains from market-based growth do not just accrue at the top, but create opportunities for all.

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4. Finance and monetary policy beyond neoliberalism

The way ahead for emerging markets

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Changing contours of received wisdom

Broad consensus had been achieved around dominant neoliberal thinking in relation to financial sector regulation and monetary policy in the two decades leading up to the North Atlantic financial crisis (NAFC) that erupted in 2007-08. Whereas this thinking was essentially developed and applied in the advanced economies (AEs), similar policy prescriptions were advocated for emerging market economies (EMs). The general view was based on two theoretical propositions: the Efficient Markets Hypothesis (EMH) and the Rational Expectations Hypothesis (REH). "The EMH defines an efficient financial market as one in which securities prices fully and rationally reflect all available information…"[1] The REH "proposed that individual agents in the economy—be they individuals or businesses—operate on the basis of rational assessments of how the future economy will develop."[2] Based on the belief that financial markets operate efficiently, it was assumed that free competition in financial markets would result in the efficient allocation of capital across the economy, and hence promote growth. And belief in the REH suggested that both individuals and financial institutions are capable of managing risks. The corollary was that regulation should be light touch only.[3]

Continued development of financial markets should therefore be encouraged; increasing financial depth and intensity is good for promoting economic growth, along with financial inclusion; and continued financial innovation helps price discovery, which promotes efficiency in the allocation of financial resources. "The pre-crisis orthodoxy was built on the idea that even if financial markets were in some ways imperfect, market liberalization and competition would at least bring us closer to perfection."[4] Such a theoretical view saw the economy and financial markets as being inherently self-stabilizing and efficient in allocating resources. A process of financial deregulation and deepening was therefore the order of the day, starting in the 1980s and lasting till the NAFC. Policy advisers to EMs and policymakers in EMs were not immune to this dominant strand of thinking.

Although this period was characterized as the Great Moderation, since the advanced economies experienced relatively consistent growth and low inflation, significant financial instability was experienced in different jurisdictions. Approximately 100 crises occurred during the 30 years before the NAFC, during which financial liberalization policies were dominant.[5] Over this period, the financial sector grew much faster than the real economy in the advanced economies: private sector debt grew from around 50 percent of GDP in 1952 to 170 percent by 2006; trading in foreign exchange markets grew much faster than exports and imports; trading in commodities exceeded growth in commodity production; gross cross border capital flows grew far in excess of investment; and financial innovation flourished with the introduction of widespread securitization and derivatives.[6] The financial sector began to serve itself much more than the needs of the real economy. This relative explosion in financial sector development across the world was clearly not reflected in the real economy.

The excessive growth in overall debt and leverage in financial institutions, explosive growth in cross border capital flows, along with the development of global macro and financial imbalances, finally led to the outbreak of the NAFC. This shock, the worst financial crisis since the Great Depression, has been instrumental in raising fundamental questions with respect to basic tenets of the neoliberal financial order outlined above. The key lesson from this crisis has to be that financial markets on their own are not necessarily efficient, stable, or self-correcting: "serious economic and financial crises can happen, even in low inflation advanced market economies."[7]

Thus governments, central banks and financial regulators have a crucial role to play in overall economic and financial sector regulation and management. Light financial regulation can no longer be sustained.

The changing role of central banks and monetary policy

Prior to inflation targeting in the 1990s, central banks, over the centuries, aimed to support sustainable economic growth through the pursuit of price and financial stability.[8] In line with efficient financial market theory, monetary policy in the decades prior to the NAFC were exclusively focused on inflation targeting in the pursuit of price stability, along with the use of a single instrument - the short term policy interest rate. The EMH suggested that the short run policy rate would be transmitted seamlessly along the yield curve and across financial markets. Whereas it was always understood that price stability was a necessary condition for the maintenance of growth and financial stability, the inflation targeting approach assumed that price stability was actually *sufficient* for maintaining macro and financial stability. As a consequence, with inflation remaining low in the period before the NAFC, central banks in the advanced economies focused narrowly on low inflation and price stability. They then largely ignored the signals that might have indicated the dangers that emerging imbalances and financial sector excesses could pose. This explains in part why so few predicted the NAFC of 2007-08.

As a consequence of the NAFC, a new consensus is emerging that:

1. The mandate of central banks needs to include both price and financial stability objectives. Consequently, they need to be given adequate authority and policy tools to achieve these objectives. There is also a growing consensus that central banks should have an active role in banking regulation and supervision.

2. Financial markets are inherently unstable and can be inefficient. Hence there is a need for intrusive monitoring and regulation of banks, shadow banks, and other financial market participants to foster economic growth with financial stability. The perimeter of financial regulation has been widened considerably and vigilance must be maintained to avoid financial market excesses.

3. Sustained efficient operation of financial markets requires continuous oversight and management from the government, central banks, and financial regulators. They should not hesitate to intervene as and when necessary.

Whereas there is broad consensus on these basic propositions, debate persists, as might be expected, regarding the various institutions and instruments required for such central bank operations. Likewise, agreement regarding the ways and means by which governments and financial regulators should intervene in banking and financial markets remains elusive.

Nonetheless, regulation and supervision of banks has been tightened considerably. Such oversight has been undertaken through: the provision of much higher capital and liquidity requirements; the return of regulatory and supervision responsibilities under the umbrella of central banks in various jurisdictions; and by the establishment of new oversight institutions. One such example is the Financial Stability Oversight Council (FSOC) in the U.S. set up to extend the regulatory perimeter. Those developments aside, consensus around the extent of regulation of shadow banks continues to elude regulators.

It is therefore clear that the days of freewheeling financial markets and lightly regulated financial institutions are over and the erstwhile theoretical belief in efficient markets and rational expectations has been severely dented. However, as might be expected with the passage of time since the NAFC, there is now considerable push back from the financial sector and, over time, we can expect some loosening of the tighter oversight that has been implemented over the past decade.

What does this portend for emerging market countries?

Financial sector policies in emerging markets: Advice and response

What was the advice being given to emerging market countries during the neoliberal order period?

Otherwise known as the Washington consensus, the advice with respect to financial sector development broadly consisted of:

- Liberalize financial markets.
- Develop competitive private commercial banks
    - Eschew government ownership of commercial banks.
- Make interest rates market-determined.
- Develop bond markets to diversify sources of long-term financing for the corporate sector and for infrastructure.

The approach to the external sector consisted of:

- Open the capital account and allow capital inflows and outflows.
- Make the exchange rate market determined through a free float.

And for monetary policy:

- Make central banks independent.
- Practice inflation targeting monetary policy.

Such advice was of course broadly consistent with the EMH and REH that was the basis of financial sector policy within advanced economies. It is interesting that consideration was seldom given to the specific conditions that characterized financial markets and the stage of economic development in developing countries and emerging markets.

What were the key characteristics of emerging market financial sectors?

First, they were mostly bank dominated with different degrees of government and private ownership in different countries, with a relatively smaller role for direct financing through capital markets[9]; interest rates have been increasingly market determined in EMs; equity markets have been generally more developed than bond markets; most EMs have used development finance institutions (DFIs) to fund longer-term investment needs with varying degrees of success and failures. On the external side, many emerging markets manage exchange rates while allowing for significant market related flexibility, while maintaining significant monetary policy independence and financial integration through managed capital flows.[10] Monetary policymakers have increasingly practiced flexible inflation targeting in the presence of different degrees of central bank independence.

Second, one of the most important developments in emerging markets since the 1990s has been the dramatic fall in inflation rates in almost all countries barring exceptions like Zimbabwe, Venezuela, and Argentina. This development was most marked in Latin America, which had suffered from very high rates of inflation on a pretty consistent basis until the 1990s. The push toward inflation targeting and central bank independence has certainly been among the key factors that have led to low inflation in Latin America. The acceptance of this framework by most governments meant that they generally accepted the idea that fiscal excesses should not be funded through monetization by their respective central banks and it is therefore desirable to provide relative independence to them. In countries such as Argentina, where this practice was violated, the subsequent increase in inflation was then not a surprise.

That said, most EM central banks have in reality practiced flexible inflation targeting: inflation targets have generally been specified in a range; foreign exchange intervention has been the rule rather than an exception; capital account management has been practiced to reduce the volatility from capital flows; monetary policy instruments have included the use of reserve ratios and other quantitative measures along with use of the short-term interest rate; and financial stability concerns have been kept in view through financial regulation and supervision. In countries where financial markets still have a long way to go for monetary policy transmission to take place, the use of the policy interest rate is naturally limited.

Since inflation was generally low in Asia, it is Latin America that has probably benefited the most from the advocacy and practice of inflation targeting and central bank independence.

Overall the special focus on inflation has certainly been beneficial for macroeconomic management in emerging markets, but policymakers have had to adapt their policy tools in line with circumstances.

Third, there is naturally a large variance in financial sector policies among emerging markets. It is perhaps correct to say that Latin American countries attempted to follow the Washington consensus in the 1980s and 1990s, particularly with respect to the external account, which led to recurring banking and debt crises over those two decades. Asian countries were generally more conservative over the period but they did suffer the Asian financial crisis in 1996-97.[11]

So, whereas there was general understanding of the tenets of the neoliberal order and its benefits among emerging markets, by the late 1990s there was a better appreciation of the constraints that their own particular circumstances and stages of development posed in terms of achieving the policy frameworks that were the order of the day. While being guided by the desirability of using market processes in the financial sector, they were perhaps more cognizant of the need for policy and process guidance by public authorities.

After the Asian crisis, for example, financial authorities in Asia strengthened capital requirements for their banks, tightened other financial regulations, improved systems for managing capital flows while increasing market flexibility and exchange rates, and strengthened both micro prudential and macro prudential regulations. Such prudence helped most of the Asian banking systems withstand the shocks emanating from the NAFC.[12] Thus, actual practice in EMs was somewhat different from a strict application of both EMH and REH, or from a narrow application of inflation targeting monetary policy. Whereas EMs demonstrated much more respect and understanding of the benefits of market-oriented policy than they had in previous decades, their experience of crises made them more conscious of the need for active financial policy and regulation.

Consequently, one of the miracles of the 2007-08 NAFC was that no financial institution went into crisis in any emerging market or developing economy, despite a flood of capital flows during the great moderation period, especially in the 2000s.

What did those EM economies do to avoid full contagion?

Managing the impossible trinity

Having had the experience of financial crises in different forms over the 1980s and 1990s, emerging markets had perhaps learned their lessons well and were not hesitant in going against the then conventional wisdom arising from the tenets of the EMH. They practiced relatively intrusive financial regulation; pursued heterogeneous monetary policy while nominally observing the basics of inflation targeting; and managed the impossible trinity, particularly as it related to capital account policies and exchange-rate management. They understood that there was no need to be at any of the policy corners of the so-called impossible trinity.[13]

First, with regard to exchange rate management, the experiences of the 1980s and 1990s had already demonstrated the virtues of flexible exchange rates: pegging was clearly a bad idea. There was a clear understanding that exchange rates needed to be essentially market determined reflecting fundamentals, but the effect of volatile capital flows had to be tempered through managed floats. Completely free floating exchange rates were not seen as the best option. So there has been an increase in intermediate regimes reflecting different kinds of managed floats.

Second, high growth demonstrated in many Asian countries, including China and India, and in spurts in Latin America, along with increasing global trade openness, demonstrated the need for a relatively open capital account. Once again, an essentially open capital account did not mean a completely open one with no management with regard to different kinds of flows. This can be done by managing the capital account through a vector of measures. There is a quality hierarchy in the nature of different types of capital flows, with some more stable and others less so: foreign direct investment is clearly seen as the most beneficial to recipient economies and also the most stable; followed in turn by portfolio equity flows, long-term debt, followed by short-term debt portfolio flows. Different kinds of measures can be taken to temper these flows to reflect this hierarchy. So, as may be seen from the balance of payments accounts of emerging market countries—which are seen to have relatively managed capital accounts—the actual magnitude of flows in both directions has been quite large and has generally been increasing over time. In fact, there is often little difference in the magnitude of gross capital flows relative to GDP between managed capital accounts and fully open ones. This suggests that the capital accounts of EMs have indeed been quite open, but of course not fully open. They are able to reap the benefits of cross border capital flows, while avoiding the costs of their volatility.

Third, in view of both the large magnitude and volatility of capital flows in the 1990s and 2000s, most EMEs intervened actively in forex markets to build up precautionary reserves in line with a managed floating exchange rate policy.

Fourth, volatility in advanced economy monetary policies in the 1990s and 2000s, perhaps reflecting global financial cycles, also suggested that emerging markets and developing economies need to adapt to practice independent monetary policies. If advanced economies have to resort to unconventional monetary policies to preserve their growth and financial stability, so do emerging markets, from their viewpoint.

As a consequence of these intermediate exchange-rate and capital account regimes, they could also practice independent monetary policy despite managed floats and capital accounts: the proof of the pudding is that, during the great moderation period, many emerging markets exhibited high growth and price stability along with financial stability.

Looking to the future:

1. *Persistent need for capital account management: should no longer be called unconventional.*

Capital flows to emerging markets are caused by both push and pull factors. To the extent that emerging markets grow faster economically than advanced economies, and are expected do so for an extended period while maintaining price and financial stability, capital will continue to flow to these countries as investors search for higher yield. Second, experience shows a persistent inflation differential exists between emerging markets and advanced economies, leading to higher nominal interest rates, even if real interest rates get equilibrated. Thus there is a constant incentive for global capital to flow to emerging markets for arbitrage purposes. With real interest rates being zero or negative in advanced economies today—a trend likely to persist through the medium-term— we can expect capital flows to emerging markets to continue in a search for better yields.

If such capital flows are not managed in some form, they lead to appreciation of exchange rates, consequent widening of the current account deficit, and loss of competitiveness, ending in the typical sudden stop, disorderly adjustment, financial instability, and eventual onset of crisis. This was amply demonstrated by the experience of the so called fragile five[14] at the time of the taper tantrum in 2013. These countries had undertaken minimal intervention in the forex market in previous years to the applause of the International Monetary Fund (IMF) and other policy observers. The real exchange rates had appreciated significantly; the current account deficits had widened relative to GDP so the mere announcement of a potential tightening in U.S. monetary policy suddenly resulted in capital outflows which had to be then countered by a range of emergency measures.

The “Unconventional” should be seen as part of the conventional toolkit just as unconventional monetary policy and practice today in advanced economies is rapidly becoming conventional.

2. *Forex intervention and reserve accumulation*

The experience of the Asian crisis and capital flow volatility in the 2000s had necessitated accumulation of forex reserves for precautionary reasons; such reserves came in useful during the turbulence of 2008 and 2009. This is well understood and much discussed.

There is, however, another reason for accumulating foreign exchange reserves that has received much less attention and discussion.

Recent experience suggests that emerging markets can grow at sustained annual growth rates in the region of 10 to 15 percent in nominal terms, reflecting real growth rates in the range of 5 to 10 percent. That suggests that, other things being equal, central bank balance sheets also have to expand by similar magnitudes to enable a commensurate degree of financial deepening and growth. Assuming that these countries do practice prudent fiscal policy, and also need to develop deep financial markets for government securities, the availability of such domestic securities could be limited for central bank balance sheet purposes. Thus, emerging market central banks need to accumulate forex reserves just for the purpose of normal expansion of their balance sheets. Note that forex reserve accumulation to this extent would not need any sterilization.

This was not an issue in terms of the availability of reserve currency securities, as long as emerging market economies did not form a significant weight relative to advanced economies. Even then, the inflow of emerging market forex reserves into advanced economy safe assets was mistakenly seen as a sign of a global savings glut. As the magnitude of emerging markets' collective GDP is now approaching that of reserve currency economies, and it will exceed their GDP in the near future, I believe that this issue will start assuming even greater importance in the discussion on international financial architecture. Will we have a shortage of safe assets for central bank balance sheets and what solutions will we find?

This kind of intermediate approach in external sector management went against the advice emanating from the neoliberal order and multilateral institutions. Now, however, in the light of developments in macroeconomic thinking and recognition of relatively successful practice in emerging markets, both before and after the NAFC, such approaches are receiving increasing acceptance and are beginning to be seen as constituting elements of conventional macro toolkits. The adoption of the new institutional view with respect to capital flow measures by the IMF in 2012 has helped to make such practices "respectable" in the eyes of international observers.[15] However, they are still not seen as intrinsic components of a standard macroeconomic management toolkit, as they should.

Financial sector development: The (new) middle path

Whereas there has been considerable discussion with regard to new directions for monetary policy and external management in the wake of the NAFC, the path ahead for policies to foster financial sector development in the interest of achieving economic growth and financial inclusion, with consistent financial stability has received little attention. Here also, in the light of lessons from the excessive financial expansion in advanced economies in the 1990s and 2000s, the way ahead can essentially be characterized as the middle (market oriented) path.

First, it is important to recognize the importance of commercial banks in the financial sectors of emerging markets. The share of banks in financial sector assets in emerging markets is usually in the range of 60 to 80 percent, with the share generally decreasing as countries grow towards upper middle income or advanced economy status. Even in Korea, which has achieved advanced economy status, the share of banks is around 60 percent of total financial sector assets. It was almost 75 percent as late as 2006.[16] Thus, in the large majority of emerging markets, which are in the middle-income range, commercial banks will continue to be the most important factors in the financial sector. Indirect financing through commercial banks will remain the order of the day in these countries for quite some time to come. Direct financing through bond markets has been a dominant feature of debt financing only in the United States and the UK: much of Europe remains bank-dominated.

It is therefore of the utmost importance that the banking sector is induced to be efficient and competitive while also being restrained from excesses. Most emerging markets have experienced periods during which much of the commercial banking sector has been government-owned or dominated, giving rise to a whole host of governance issues. Similarly, issues of governance often arise when such banks are privatized. During periods of external or internal shocks, government ownership or guarantees have been important in preventing bank runs and thereby provide stability within the banking sector. Thus, it may be worth considering what would be an appropriate mix between public and private ownership of banks in emerging markets. Complete private ownership of commercial banks may not be the panacea as has often been advocated.

Bank ownership and governance have posed significant problems in AEs and EMs alike. Ownership by business groups and private entrepreneurs raises obvious conflict of interest issues. A bank license empowers the licensee to access public savings, which can then be diverted to the owner's own firms or connected ones. For this reason, dispersed ownership is normally the preferred form of bank ownership. In the U.S., for example, nonfinancial companies are not permitted to own banks. In advanced economies it is usually institutional investors who own such shares in a dispersed manner. Even in relatively advanced emerging markets, there is a scarcity of institutional investors. It is therefore not uncommon for dominant business groups to end up owning banks in EMs. It is for the same reason that it is not unusual to see significant government ownership of commercial banks in EMs. It is also observed that when private bank ownership is preferred, or when bank privatization takes place, such banks are often owned by foreign investors. In India, for example, where dispersed ownership has been enforced in private-sector Indian banks, ownership of these banks has ended up in the hands of foreign institutional investors. Thus, the largest Indian private banks have foreign ownership of over 70 percent, but such ownership is dispersed.

The main solution to this conundrum lies in some combination of state and private ownership of banks, along with certain degrees of foreign ownership and presence of some foreign banks, which would then provide a certain degree of competitive discipline in the banking system. Such competition will not be enough, so robust banking regulation and supervision is a necessity for both state-owned and private sector banks. There would then be a possibility of conflicts of interest to be regulated and supervised. Regulatory capture certainly poses problems in such circumstances, thereby placing a premium on the appointment and maintenance of competent technocratic banking regulators and supervisors.

There are no magic solutions: once again a middle path is the only way out, along with constant oversight by the government, the central bank, and other financial regulators as the case may be.

Second, the conventional wisdom that had emerged was that commercial banks would essentially do short-term lending whereas bond markets need to be developed to provide direct financing for long-term financing needs. There has therefore been a constant refrain from financial sector advisors and international financial institutions (IFIs) urging the development of bond markets in EMs.

Consequently, the development of local currency bond markets became a policy priority for many Asian economies after the Asian financial crisis. Even after more than a decade and a half of such efforts, bond market financing of the corporate sector in Asia has barely reached 10 percent of the total needs: around 50 percent continues to be from bank lending whereas about 40 percent comes from equity financing. Moreover, the majority of corporate bond issuance is originated from government-owned corporations, banks, shadow banks, energy and transport utilities.[17] Furthermore, an average of about 60 percent of corporate bonds in Asia have maturities of less than five years, thus belying the expectation of long-term financing from bond markets. The issue, perhaps, is that even in mature bond markets most of the investment is sourced from institutional investors, which take considerable time to develop. The expectation that EMs will rapidly become a source of long-term financing for industry and infrastructure will therefore remain a mirage until there is intensive development of contractual savings through pension and insurance institutions. Once again, a middle path is called for: keep developing bond markets but keep realistic expectations on the efficacy in the short to medium-term.

There is, however, a corollary to the development of bond markets. Whereas it will take considerable time for corporate bond markets to develop, it is essential that EMs pay special attention to the development of government securities markets. The efficient price discovery of market interest rates and benchmarks for overall functioning of financial markets needs the operation of relatively efficient government securities markets. They are also necessary for central bank operations with respect to monetary policy implementation. Given the safety that government securities imply, it is much easier to develop government securities markets. As they become more liquid and efficient, they also help in the eventual development of corporate bond markets

Third, it may therefore be desirable to reinitiate discussion on the need for development finance institutions (DFIs) once again in EMs. Most emerging market countries initiated development finance institutions (DFIs) in the 1950s to the 1970s. These DFIs were largely government owned or dominated, including frequent participation by multilateral financial institutions. They were established in recognition of various market failures that inhibited long-term financing by commercial banks: industrialization required long-term financing.

In the absence of well-functioning bond markets, DFIs were seen as the solution. Because of increasing governance issues, usually due to excessive government interference in these institutions, they went out of fashion by the 1990s, and were increasingly frowned upon by denizens of the neoliberal order. Such DFIs were promoted heavily by IFIs in a host of developing countries in the 1950s to 1970s. They did indeed experience a great deal of political interference, often suffered from low-quality management and staff, and lacked the capacity to adequately evaluate projects, among other shortcomings. Hence, many ended up with significant nonperforming assets and erosion of their capital.[18]

However, most emerging markets still have active DFIs and the remaining ones appear to be profitable.[19] There is little difference in their profitability in comparison with commercial banks. As infrastructure investment is increasingly being done through private participation, a new need has arisen for DFIs in EMs. In view of the limited success in setting up corporate debt markets, there is a revival of interest in scaling up development finance through such institutions, both those that already exist and by creating new ones.[20] "DFIs across the world hold roughly $6 trillion in total assets, with G-20 members as shareholders of $4.3 trillion of that total. The largest amount of DFI capital is held in national development banks, which are $4.8 trillion of the total, and MDBs at $1.8 trillion."[21] It is certainly the case that the most successful fast-growing EMs such as Japan and Brazil in the 1950s-1970s, Korea, China and others, have indeed used DFIs to fund their industrial and infrastructure investment needs, even though they certainly have their own share of financing failures.

The new challenge therefore is to develop new thinking on how such institutions can be resuscitated or newly established to serve the emerging needs for long-term finance. Perhaps some lessons can be taken from the running of institutions such as the European Investment Bank in Europe or the Nordic Investment Bank, along with other similar successful institutions. Whereas AEs and IFIs generally frown on the setting up of DFIs, the existence of these institutions in the most developed parts of the world suggests that there is indeed a significant role for such institutions in financing long-term industrial and infrastructure development. The establishment of the Asian Infrastructure Investment Bank (AIIB) by China and the New Development Bank (NDB) by the BRICS countries are prime examples.

How to ensure that DFIs avoid meeting the same fate as many of those that are now defunct is an important issue. Yet, there is now greater availability of financial sector and banking expertise in EMs to staff such institutions with adequate experience and competence. Additionally, just as MDBs have been structured in such a way that they have technocratic management subject to political oversight, similar ways can be found to structure both multilateral and national DFIs. As has been done in certain cases, national DFIs can invite partial but significant ownership by multinational DFIs and private-sector institutional investors that have long-term horizons like insurance and pension funds, in addition to national governments themselves. Such structuring could help in curbing harmful government interference that had been the bane of former DFIs. Finally, there does need to be some understanding that such institutions do take higher-risk than commercial banks and hence some degree of loss provision should be anticipated.

Fourth, in view of the importance of commercial banks there must be recognition that governments, central banks and financial regulators need to understand their responsibilities with respect to adequate regulation covering the whole financial sector. Commercial banks are usually subject to greater regulation than other financial institutions in view deposit taking role and stewardship over public money. This can lead to regulatory arbitrage and increasing expansion of nonbanks or shadow banks, creating greater risk in the financial sector. At a minimum, all institutions permitted to take public deposits should be subject to similar regulations. These issues assume somewhat greater importance in EMs, given their typically higher growth and continuing need for financial expansion.

Fifth, countries experiencing high growth also naturally experience a high rate of credit growth, which is often helped along by desirable large capital flows. There is equal need to temper the transmission of external capital flow volatility into the internal credit and financial markets, along with possible domestic excesses in terms of over-leveraging. Otherwise, we know the consequences: excessive credit growth, low risk perceptions, irresponsible borrowing and lending, along with asset market booms followed by busts, as happened in the NAFC. To the extent that domestic financial markets are open to portfolio flows there is an even greater likelihood of the transmission of external volatility to domestic financial markets.

In real time it is difficult to know what is excess and what is normal and desirable. So a good deal of judgment has to be used by the regulatory authorities and central banks in how they address these issues. There are many instruments that are potentially available: use of cash reserve ratios, calibration of risk weights by sector or instrument or overall, margin requirements, loan to value ratios, and the like. In addition, a close watch should be kept on external borrowing by banks: it is indeed possible to design macro prudential regulations that are market related and self-administering.

Much of what has been said here suggests a greater role for central banks and financial regulators. Should such unelected technocrats be given such policy powers and freedom? Why should we have confidence that they will operate in the public interest? Paul Tucker has addressed this question in some detail in his recent book in the context of AE central bank independence.[22] What is important is that governments attempt to provide relatively clear policy mandates to these institutions along with reasonably high degrees of autonomy and legal powers to perform their functions efficiently. This is helped by increasing acceptance of the need for transparency and accountability in their functioning.

Once again, there are no magic solutions. Typically, senior officials in central banks and financial regulatory authorities in EMs, as in AEs, have longer and more stable tenures than those in government. They are no doubt subject to rules and pushes from political and government authorities on a relatively continuous basis. It is probably correct to say that the technocratic quality of these officials has improved over time significantly. There is now a great deal of communication between central bankers and financial regulators across the world, among EMs and between EMs and AEs. This is facilitated by a range of regional groupings that have emerged along with the IMF, the Bank for International Settlements (BIS), the Financial Stability Board (FSB), the G-20 and others. This kind of exposure and discussion has helped in the functioning of these institutions. However, there is also a downside since such continuous communication also leads to a certain degree of group-think, particularly the advocacy of policies that that are more suited to conditions in AEs. EM officials need to guard against this tendency and continuously adapt so-called best practices to their own conditions.

That the EMs did not suffer from their own financial crises as a consequence of the NAFC suggests that they were indeed relatively successful in starting their own monetary policy and regulatory paths.

Conclusion

Central banks and financial regulators in emerging market economies have to keep their basic aims in mind: achievement of growth with price and financial stability, and *do whatever it takes* to achieve them. In a world of relatively open capital accounts and globalized finance, they do need to expand their arsenal of macroeconomic, monetary, exchange-rate, and financial policies that encompass some of the policy and institutional instruments that have been discussed.

As we adapt to a post neoliberal order the approach to financial sector development for EM economies must essentially be seen as a middle path between free market imperatives tempered by appropriate and necessary public policy intervention by governments, financial regulators, and central banks alike. Their focus must be to incentivize and manage their financial sectors so that they serve the financing needs of the real economy rather than themselves.

The lessons derived from crises observed in the past three to four decades in both emerging markets and advanced economies suggest that financial markets are inherently unstable and hence need different kinds of public policy controls in the quest for maintaining high growth with financial stability in emerging markets.

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[1] Adair Turner (2016). p. 37.
[2] Ibid.p.38
[3] Group of Thirty (2015). p.9.
[4] Adair Turner (2016). p.37
[5] Stiglitz (2014). p. 335. (In his comments Homi Kharas quoted a figure of 412 financial, banking and sovereign debt crises in the last 40 years, derived from IMF documents.)
[6] Adair Turner (2016). p. 1.
[7] Group of Thirty (2015). p. xii.
[8] Ibid. p. xi.
[9] Ilhyock Shim (2019), with regard to Asia.
[10] Joshua Aizenmann (2019).
[11] Ilhyock Shim (2019).
[12] Ilhyock Shim (2019).
[13] The ‘Impossible Trinity’ contends that countries cannot simultaneously have a fixed exchange rate, capital mobility, and monetary policy autonomy.
[14] Brazil, India, Indonesia, South Africa and Turkey.

[15] IMF (2012).
[16] Kiseok Hong and Jong-Wha Lee (2019).
[17] Cyn Young Park (2019).
[18] Comments by Shahid Yusuf in the workshop, reflecting on long experience in the World Bank.
[19] 63 in Asia in 2016, down from 121 in 1998. Vikram Nehru (2018).
[20] See Kevin P. Gallagher and others (2018) for an excellent review of the current literature on this issue.
[21] Ibid p. 4
[22] Tucker (2018)

5. The environment beyond neoliberalism

Delivering sustainable growth

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Introduction

Over the past few decades, technological, governance, and market progress has lifted an unprecedented number of people out of poverty (extreme poverty rate has declined from 36 percent in 1990 to an estimated at 8.6 percent in 2018)[1] and delivered incredible new economic opportunities. But, at the same time, this progress has come at a real cost—growing inequalities (the world's richest 26 people possess the same wealth as the poorest half of humanity)[2] and an increasingly dangerous degradation of the natural resource base which supports life on earth and our economies.

This environmental degradation is starting to reverberate and affect economic growth. If unchecked, there is a real risk of serious impacts on financial stability, and the welfare of people around the world. Disasters triggered by weather- and climate-related hazards were responsible for thousands of deaths and $320 billion in losses in 2017, and the 2018 Intergovernmental Panel on Climate Change (IPCC) special report "Global Warming of 1.5°C" raised the alarm on the significant and potentially irreversible risks of a changing climate. Water stress, occurring when demand exceeds supply, linked to climate change is already contributing to migration, which in turn can lead to conflict and political instability. Today, outdoor air pollution kills an estimated 4.2 million people annually according to the WHO. At the same time, 2.1 billion live without readily available, safe water supplies at home, and 4.5 billion live without safely managed sanitation.[3]

In the past, many viewed environmental quality as a trade-off with economic growth: any increase in environmental quality came at a cost or slow-down in economic development prospects. As new clean technologies have emerged and their costs plummeted, it has been increasingly clear that many green alternatives can be cost-competitive. We can have both a clean environment and robust growth. More recently, evidence has shown that sustained growth is, in fact, dependent on environmental protection, and the two must go together.[4] The only viable growth path is one that is low-carbon, resilient and sustainable.

The challenge now, we argue, is to accelerate the transformation to a better, more inclusive, sustainable economy. This is especially urgent in emerging economies, where growth is advancing most rapidly. These countries are in the process of designing the cities, energy, food, water, and transport systems of the future. The results will lock-in growth paths for decades to come. Globally we have witnessed an ability to produce and consume more efficiently and with less waste and pollution in recent decades. However, excessive consumption by the rich along with growth in demand, especially from a growing global middle class, has overwhelmed efficiency gains. To ensure future sustainability and avoid intergenerational inequity, we need a much more profound shift in how our economies interact with the environment.

In the coming decade, we have a window of opportunity to make this transformation, given the major structural changes occurring across the globe, including rapid urbanization, a growing global middle class with changing consumption preferences, shifts to service-based economies, and increasing automation. The question is: how do we seize this opportunity with the urgency required to tackle the global climate and environmental crisis?

We have organized this chapter around four key changes to economic policy and institutions that we believe are needed to deliver a more inclusive and sustainable future: (1) how to measure economic well-being; (2) how to manage consumption; (3) how to design effective environmental policy; and (4) how to ensure government works well with the private sector and more engaged citizens.

We argue in this chapter that environmental policymaking today is being informed by policy and institutional choices that often deviate from original notions of neoliberalism. Past writings on neoliberalism say little about the environment, but we can infer some key directions or principles: rely on the private sector and the market to solve environmental problems; limit regulation as this distorts markets; grow now and clean up later (as reflected in the Kuznets curve); and focus on privatizing property rights. While some of these principles have played a role in advancing environmental protection at the margins, new models are urgently needed. We are rapidly approaching tipping points on inter alia, land use change, freshwater use, biodiversity loss, and climate change that could irreversibly affect growth and development pathways for humanity.

What is needed to deliver more sustainable and inclusive growth?

Redefining growth beyond economic well-being

What gets measured, gets managed. This is true for how governments measure the well-being of nations. Following the Bretton Woods conference in 1944, gross domestic product (GDP), a measure of the size of economic production, became the default proxy for a country's economic and general welfare. While it was never intended to measure general well-being, neoliberals embraced GDP and growth as the sine qua non for progress, based on the assumption that the more a country's economic activity grows the better off its citizens become. GDP and an affixation on growth has two limitations, however, that have become more pronounced in recent decades. GDP does not account for how growth is distributed or whether it is sustainable.

First, the wealth distribution challenge. With relatively evenly distributed wealth, strong investment in public services, and high household economic security, GDP can be a good yardstick. This was the case for many developed countries following World War II. It is not the case today. Living standards have stagnated or declined in many countries, even as their economies continued to grow. Income inequality in developed economies is at its highest in fifty years and while hundreds of millions have been lifted out of poverty in emerging economies, such as China and India, the benefits of growth have not been evenly shared, leading to rising income inequality.[5] In 2017, an estimated 82 percent of the wealth created globally went to the top 1 percent of the world's population.[6] A narrow pursuit of economic growth as an end, rather than means, has for many countries lead to inequity and economic insecurity.

Second, the interlinked sustainability challenge. GDP does not account for how income is generated. It excludes the value of natural assets and the cost of environmental externalities. A country can degrade its agricultural land, cut down its forests and pollute its water, while recording these activities as positive economic contributions.[7] GDP does not measure environmental degradation or depletion of natural assets until these activities start to show up as economic costs, but by then it can be too late to reverse, for examples, soil degradation, aquifer depletion, and climate change. When GDP was first introduced, natural resources, such as forests, fisheries, minerals, and fertile land were abundant. This is no longer the case. Few economic models consider the impact of environmental degradation in slowing or disrupting economic growth, a feedback loop whose magnitude we are increasingly aware could be significant.

Box 1. Beyond growth and GDP: Examples of metrics for measuring how well countries meet the needs of citizens without degrading the planet

- **OECD Better Life Index** – in its fourth edition, this measures well-being across countries, based on 11 topics, including jobs, education, housing, and environment. Topic areas are based on one to four specific indicators e.g., environment is based on air and water quality. It does not capture all aspects on environmental well-being.
- **Green GDP** – this seeks to capture changes to natural capital by adjusting GDP for natural capital consumption, including resource depletion, environmental degradation, and protective and restorative environmental initiatives. It does not address social equity.
- **Doughnut Economics Framework** – by Kate Raworth combines Rockstrom et al's nine planetary boundaries for unacceptable environmental degradation (e.g., land conversion, biodiversity loss, climate change) with twelve dimensions of the social foundation of societies. The social dimensions are derived from the Sustainable Development Goals (SDGs) and include health, food, energy, political voice, social equity and gender. It is more an economic model than metric.
- **Genuine Progress Imitator** – seeks to measure whether a country's growth, increased production of goods, and expanding services result in the improvement of well-being by accounting for 20+ social and environmental factors not captured by GDP. It also differentiates between economic transactions that add to well-being and those which diminish it.

Other initiatives include, for example, the World Bank's Genuine Wealth indicators, and the EU's Beyond GDP Initiative.

Sources: www.oecdbetterlifeindex.org
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www.kateraworth.com/

As we recognize the limitations of the neoliberal focus on economic growth, the question is how then should a nation measure its well-being? The correct answer is that it depends on a country's context. But all countries should include metrics of equity and sustainability. And the relationship between economic and environmental goals need not be a trade-off. Win-wins or co-benefits are possible. In the past 10-15 years China has strengthened national building codes for commercial and residential buildings reducing energy costs (even after taking into account the cost of financing) and greenhouse gas emissions at the same time. India's sizable investments in renewable energy create benefits for climate change and position India to take advantage of growing markets for clean energy.

Calls for metrics that go beyond GDP are emerging. The 2009 Stiglitz Commission Report (Stiglitz, Sen, and Fitoussi 2009), for example, highlighted GDP's limitations and called for a dashboard of metrics that included wealth distribution and sustainability. This spurred a flurry of efforts to create such metrics, including OECD's Better Life Index, Green GDP, Doughnut approach, and the Genuine Progress Indicator (see Box 1). The challenge is not a lack of metrics, but how to create a dashboard small and focused enough to resonate with policymakers, but large enough to include what matters most to citizens. Despite various efforts to do so, many governments and commentators continue to focus on GDP.

The U.N. SDGs that all countries have endorsed may help address the metrics challenge. SDGs measure what GDP does not, including environmental health and equity. However, their comprehensiveness (17 SDGs, 169 targets, and 232 indicators) is not suited to providing the narrow dashboard needed by policymakers. To address this, governments can engage citizens in prioritizing which SDGs and targets are most relevant to their country's context. Some goals, such as measures of employment, equity, and environmental health will likely be applicable to all countries. Others, such as hunger and education, may be more relevant to lower income countries. The selected SDG goal priorities can be combined with the traditionally highly watched GDP metric to form a single more rounded dashboard for measuring well-being and progress. But concerted communication campaigns will be needed to widen attention to these other metrics beyond GDP, to create the political will to ensure they are mainstreamed, and to ensure they "stick" over the long-term.

Redirecting production and consumption

Despite efforts to redefine growth beyond economic well-being, GDP continues to be the most important metric to the mainstream economic community. GDP growth hinges on consumption growth, as consumer spending or consumption is often the largest component of a country's GDP. Financial markets, business, and policymakers all seek increased consumer spending, even though consumption and the underlying production processes that support it often drive natural resource depletion and environmental degradation.

Let's look at the food system, for example. Ruminant meat (beef, lamb, and goat) is especially resource-intensive to produce, requiring 20 times more land and emitting 20 times more greenhouse gases (GHGs) per gram of edible protein than alternative protein sources, such as beans, peas and lentils.[8] Consumption of ruminant meat globally is expected to increase by 88 percent between 2010 and 2050. This will drive further demand for pasture and feed, creating pressure to convert remaining forests into agricultural land. The conversion of forests leads to biodiversity loss and climate change through the release of carbon stored in biomass.[9] More broadly, the agriculture sector places the largest demand on water (approximately 70 percent of global freshwater withdrawals),[10] and yet, water-intensive crops continue to be planted in water-scarce areas. Other sectors such as energy, transport, and manufacturing also can seriously impact the environment. According to Rockstrom and Steffen,[11] planetary boundaries which represent a "safe operating space for humanity" have already been exceeded for biodiversity and biochemical (nitrogen and phosphorus) flows and will soon be breached for climate change and land system change.

The inability of national metrics such as GDP and corporate financial accounting systems to account for the depletion of natural capital or environmental costs (negative externalities) has contributed to unsustainable production and consumption of resource-intensive and environmentally-destructive goods and services. The projected rapid growth of the global middle class from 3.6 billion in 2018 to 5.3 billion in 2030[12] will further exacerbate current environmental trends unless consumption and the underlying production systems that support it dramatically shift. This shift requires growing the market share of goods and services that promote health and well-being, curbing excessive consumption (half of the world's population consumes 50 percent more protein than needed)[13] and ensuring production systems that enhance and restore rather than deplete the environmental and natural resources that underpin long-term economic health.

Three emerging shifts in the form and types of consumption offer opportunities to reduce the resource-intensity and environmental impacts of the economy: circular consumption, shared consumption, and substitute consumption.

Circular consumption encompasses reusing materials at the end of their life, rather than disposing of them, eliminating waste and pollution in product design, keeping products and materials in use for as long as possible, and regenerating natural systems.[14] Procter & Gamble,[15] for example, has announced the first-ever fully recyclable shampoo bottle made from recycled beach plastic. Guangzhou Huadu, a Southern Chinese company, remanufactures gearboxes and other automotive transmission systems recapturing the value-added component of the original product rather than landfilling or recycling it.[16]

Shared consumption involves sharing an asset that would otherwise be under-utilized. Examples include renting out homes (Airbnb) ride services (Uber), and clothes (Y Closet).

Substitute consumption involves replacing an environmentally impactful product or service with one that provides the same or similar function, but with less environmental impact. For example, shifting transportation from private vehicles to public transit services such as bus and rail, and non-motorized services such as bicycles can reduce the environmental impact per passenger mile traveled. Likewise, the substitution of plant-based diets instead of meat-heavy diets can create health and environmental benefits. The private sector, for example, is developing plant-based products that mimic the taste, texture, and experience of consuming beef or milk. Food service companies such as Sonic and Sodexo are reducing beef consumption by substituting new product lines such as the blended burger that blend mushrooms and beef, reducing environmental impacts and calories.[17]

Evolving social norms and policies are helping to redirect production and consumption in ways that are more environmentally sustainable. Approaches to sustainable production and consumption, however, may not always lead to aggregate increases in conventionally defined consumption or GDP, reinforcing the need to shift beyond GDP metrics as discussed in the previous section.

Complementing market-based instruments with regulations and other policy instruments

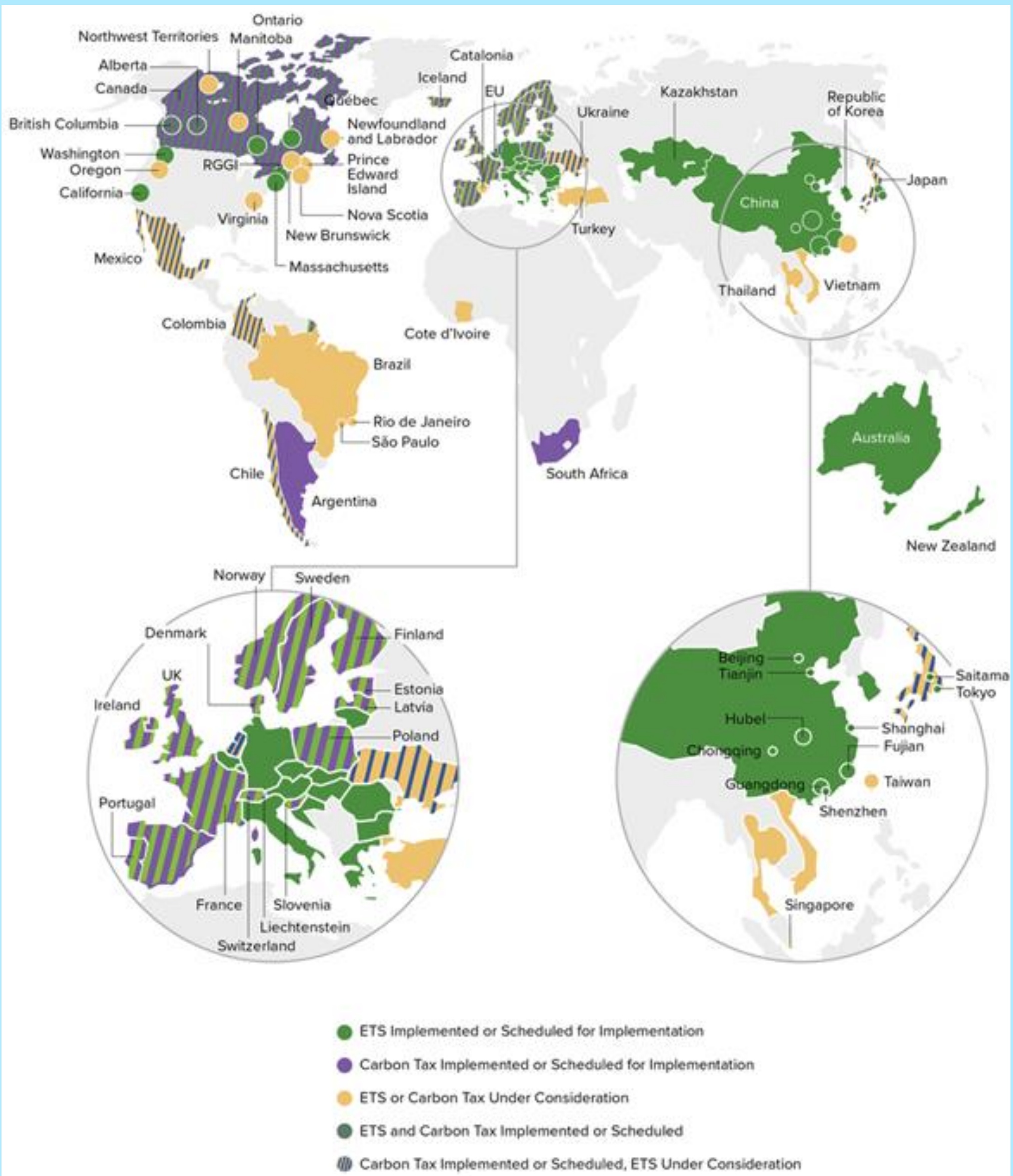
The importance of taxing activities that generate negative externalities to correct for market-failures and enhance economic efficiency started with discussion of Pigouvian taxes in 1920 by Arthur Pigou, and was further advanced with respect to taxing pollution by William Baumol in 1972. Neoliberal economists have strongly emphasized the importance of market-based instruments as the most efficient approach to tackling air and water pollution, GHG emissions, and other negative environmental impacts of economic activity including the over-use of common resources (water, fisheries, biodiversity, etc). The suggestion by many economists has been that, if these market failures are corrected, an optimal level of pollution reduction or resource use will be achieved.

There has been progress in the use of market-based instruments in recent decades. For example, the number of carbon-pricing systems implemented or planned has quadrupled over the past 10 years, now covering over 74 jurisdictions and about 20 percent of GHG emissions globally (See Box 2).[18]

Box 2. The increasing spread of carbon pricing globally

Despite mainstream economists advocating for carbon pricing since the 1970s, progress was slow on their uptake until recently. Major recent developments in 2017 and 2018 included the launch of the Chinese national emissions trading system and the introduction of new carbon taxes in Chile and Colombia, as well as increased prices or tightened caps in existing carbon-pricing systems. A pan-Canadian carbon price will be implemented in 2019, and carbon taxes will come into force in Argentina, Singapore, and South Africa.

Factors that have helped drive the spread of carbon pricing include: mounting evidence that early carbon pricing experiences have not hampered growth, contrary to early skepticism; political interest in the revenues it can provide; and increasing support by the private sector, concerned about the growing threats of climate change to their business model.



Increasingly, however, the limitations of a singular focus on market-based instruments has become clear to many economists. The right question is not whether to use a price-based instrument or a regulatory or other policy instrument, but instead how these might be optimally combined for efficiency and effectiveness.

Major institutions promoting the use of market-based instruments—such as the OECD, the IMF and the World Bank—have recognized in recent years that they are most effective when used in a broader policy package. This includes important roles played by: (1) standards and regulations (e.g. building efficiency or fuel efficiency standards), in particular where price signals may not reach the right decision-makers or take too long to shift investment or behavioral choices; (2) investments in R&D and innovation to help bring down the costs of environmental-friendly technologies to spur their deployment; and (3) information-based instruments, such as energy or water efficiency labels on appliances that can inform consumer choices and accentuate the effect of pricing.

Behavioral economics has found that individuals do not always react rationally to a price alone, and an additional "nudge" can significantly enhance behavior. For example, combining water or energy pricing with notices indicating how a given household compares to neighbors in terms of efficiency savings can significantly boost incentives to enhance efficiency, well beyond what the price alone will do.

An important recent development in the classical neoliberal focus on market-based instruments to achieve environment policies has been a recognition of the need for accompanying measures to manage social and competitiveness effects. In terms of industrial competitiveness concerns,[19] there is little evidence of any impacts of environmental policies on cross-country competitiveness, and has been a major block to policy action in many countries. As a result, for example, most carbon pricing schemes either exempt or offer special provisions for trade-exposed energy-intensive industries. As prices increase, and carbon or other environmental pricing continues to spread to other counties, finding approaches to include these sectors in environmental action through pricing or other policy measures will be essential, in particular as they are often the most polluting sectors.

In terms of the distributional impacts, there is building evidence of how environmental policies, in particular pricing instruments or reforms of distorting subsidies, can be implemented in a way that consciously works to reduce social inequities, rather than exacerbating them.[20] These efforts build on successful examples of redistributing the revenues of carbon pricing systems to support affected households, such as with the British Columbia carbon tax that has ensured low-income households are better off than they would have been without the carbon tax.[21] Approaches to ensure a just transition to a low-carbon and sustainable energy economy through social dialogue are emerging in various countries, including in Alberta, Canada where carbon price revenues were allocated to support the transition for coal communities, and in China where a $15 billion fund was established to help fund the retraining, reallocation and early retirement of workers affected by managing over-capacity in the coal and steel sectors. Other examples include socially progressive water pricing schemes.[22] However, much progress is still needed: $373 billion[23] is still provided in fossil fuel subsidies globally each year, effectively working against carbon pricing, as well as over $500 billion in subsidies to agriculture each year, which exacerbate challenges in better land use and water management.[24]

Defining the roles of government and private sector and how they can work together

A perennial question confronting policymakers is clarifying the appropriate roles of the state, private sector and civil society in most effectively addressing environmental problems. Neoliberal principles would encourage a limited role for government and a reliance on market signals to tackle externalities. However, the nature and urgency of environmental crises point to the need for more ambitious and concerted effort by both the public and private sectors than would happen otherwise. In earlier sections, we remarked on the critical role of the government in developing more comprehensive metrics to measure economic progress, in helping redirect production and consumption and in pricing or regulating environmental externalities (e.g., air pollution, water pollution, congestion), eliminating wasteful subsidies (e.g., fossil fuels, agriculture) and providing incentives for more sustainable investments (e.g., renewable energy). In this section, we share reflections on key roles that government will need to assume if we are to successfully tackle growing environmental challenges.

- **Accelerating investment in sustainable infrastructure**. Approximately two-thirds of the investments in infrastructure in developing and emerging countries, which often has significant impacts on the environment, is provided by public resources.[25] Governments and development financial institutions need to strengthen national and sub-national policy frameworks and institutional capacities to deliver more inclusive, sustainable infrastructure. Greater attention is being given to build pipelines of viable projects and reduce high development and transaction costs in order to attract private investment at scale. Globally, investments in infrastructure are likely to double to $90 trillion between 2015 and 2030.[26] We need to get this infrastructure investment right to avoid unsustainable lock-in for decades to come. The next five years is a critical "use it or lose it" window of opportunity, as this is when many of the policy and investment decisions that shape the next 10-15 years will be taken (see Box 3 on China's Belt and Road Initiative).

- **Stimulating innovation.** Another distinct role for government is to ramp up investments in technology R&D and deployment to reduce the costs and enhance the accessibility of sustainable technologies. Well-designed innovation policy has helped drive down the costs of renewable energy (e.g., wind and solar), which in turn has accelerated the low carbon energy transition. China, for example, identifies "strategic emerging industries" that officials believe will be critical to delivering China's five-year national development plans. Energy efficient and environmental technologies topped the list during China's 12th Five-Year Plan (2011-2015). India has identified solar-based technologies as a comparative advantage and has set a highly ambitious solar power target along with corresponding policies and incentives to stimulate investment in solar power generation. India has also co-founded the International Solar Alliance to support other countries in deploying solar energy. Similar attention to innovation needs to be given to other environmental challenges such as developing heat-resistant and drought-resistant crop varieties that are able to withstand a changing climate or technologies to reduce agriculture-related emissions such as from rice and livestock production.

- **Managing just transitions.** For governments to facilitate a more sustainable development trajectory, it is critical that the distribution of socio-economic benefits and costs are carefully understood and managed in a fair manner. Developing countries, for example, have an opportunity to leapfrog the inefficient and polluting energy models of the past by embracing a low-carbon transition. But to succeed, governments will need to work with energy companies, trade unions, and civil society to ensure a just transition for workers and communities dependent on fossil-based energy systems for their livelihoods. Examples of approaches that can help ensure such a just transition are emerging from Canada, Uruguay, Scotland, China, Germany, and elsewhere.[27]

Box 3. China's Belt and Road Initiative

The Chinese government's Belt and Road Initiative (BRI) offers a sweeping vision to invest $6 trillion in infrastructure across almost 70 countries in Asia, Europe, and Africa (SCIO 2015). How this infrastructure is developed will be a critical determinant of future growth and prosperity in these countries. The investments in power, transport, and other long-lasting infrastructure assets will lock in technologies for decades, impacting the development pathways of BRI countries and their neighbors. Investing in sustainable infrastructure can simultaneously reignite global growth, deliver on the Sustainable Development Goals (SDGs), and reduce climate risk in line with the Paris Agreement on climate change (Zhou *et al.* 2018).

A new World Resources Institute (WRI) report "Moving the Belt and Road Initiative from Words to Action" provides an overview of how Chinese energy and transport investments in BRI countries from 2014-17 align with the green commitments in their nationally determined contributions (NDCs). It is based on a review of data on bank loans and cross-border investments. The Chinese government has taken promising initial steps to incorporate environmental sustainability, or "green," strategies and objectives into BRI, but so far it has been in high-level and conceptual terms. The analysis found a clear trend of increasing Chinese investments in BRI countries over time: from 2015 to 2017, the volume of energy and transport syndicated loans in which major Chinese banks participated was three times as large as in the period from 2012 to 2014. The data show that almost three quarters of the $143 billion loaned over the period reviewed were tied to carbon-intensive sectors such as oil, gas, and petrochemical industries and did not show a strong alignment with the low-carbon priorities included in the BRI countries' NDCs. The exception appeared to be that nearly two-thirds (64 percent) of cross-border energy-sector investment by Chinese privately-owned enterprises were in renewable energy.

This overarching trend needs to urgently change to align with China's own green strategies, as well as with the national climate plans of BRI countries. Implementing practical policies and guidance to shift Chinese financial flows will be necessary to achieve a green Belt and Road Initiative and green Chinese outward investments more broadly. The receiving countries will also need to communicate their needs clearly.

Sources:

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The central message is that government will need to play a more active role in facilitating the transition to more sustainable energy, urban, food and land use, and water systems than they have in the past. But this should be seen in the broader context that the private sector must also play an indispensable role in these transitions. Large multinational companies are increasingly aware of the significance of global sustainability risks. In the 2018 World Economic Forum Global Risks Perception Survey, the top four global risks are environment or climate related: extreme weather events, natural disasters, climate change, water crises.[28] This reflects a profound shift from the top global risks identified a decade ago by the world's business and political leaders.

In response, large companies, including from the developing world, are making ambitious sustainability commitments. For example, over 500 companies, representing approximately $7 trillion in market value and with collective emissions equivalent to Canada, have committed to setting science-based targets for reducing greenhouse gas emissions. Approximately 12 percent of these companies are headquartered in the developing world. Companies are also leveraging their supply chains to accelerate such shifts. The Consumer Goods Forum, a global industry group of retailers and manufacturers, made a public commitment to achieve zero-net deforestation by 2020 through the sustainable sourcing of key commodities like soy, palm oil, cattle and paper and pulp. Also important is the need to shift private capital towards more sustainable investments. The Investor Agenda, the largest climate investor alliance globally, represents nearly 400 investors that collectively manage $32 trillion in assets, and was developed to scale up actions critical to tackling climate change and to achieve the goals of the Paris Agreement on climate change.[29]

What we are observing is no longer an unwavering belief that that the market will solve major environmental challenges alone, but that government has an indispensable role to help channel and accelerate action by the private sector. The focus now is in constructing the right interface between the two. We are also witnessing other public and private actors such as subnational governments (cities and provinces/states), supply chains and multi-stakeholder alliances coming together to tackle these challenges. Given that we are fast approaching environmental thresholds and tipping points, encouraging leadership from wherever it may emerge, in the hope that it stimulates leadership from others, is critical.

Conclusion

To close, we observe that economic policymaking has increasingly embraced neoliberal tenets. The primacy of economic growth and the more prominent role for markets and the private sector to drive this growth is more evident today than was the case 30 years ago. However, the adoption of neoliberal principles has been uneven across countries and has been increasingly questioned in light of major distributional and sustainability challenges that this approach has generated. Whether neoliberalism in its narrow form, new interpretations of neoliberalism, or alternative models altogether inform environmental policy and institutional choices in the future remains unclear. The importance of getting the policies in place, given the risk of crossing irreversible environmental thresholds and tipping points, cannot be overstated. We suggest looking at the following checklist of illustrative milestones to assess how this debate unfolds:

- Will efforts to tackle climate change accelerate despite diminished attention to climate action in the U.S. and Brazil, allegedly for growth and industrial competitiveness concerns? Will emerging economies such as China and India focus on carbon pricing, regulatory reforms, or both?
- Will we see integration of SDGs and national climate plans into medium- and long-term economic and development plans such as in Indonesia's 2020-2024 RPJMN[30] and China's 14th Five-Year Plan?
- Will the shift from selling goods to selling services accelerate in ways that reduce environmental impacts? Will the digital revolution allow us to consume, produce and regulate in ways that were not previously possible—e.g., shared economy and selling services rather than stuff and what affect will this have on the environmental impacts of production and consumption?
- Will city officials in rapidly urbanizing countries invest in conventional transport infrastructure (roads, parking lots, and flyovers to support private car ownership) or

will they take decisive steps towards shared, electric, and non-motorized modes of transport?

- Will evolving social norms lead to increased consumption of plant versus meat-based protein; electric versus gasoline cars or public versus private transport? Will these norms inform policy and how will this differ between countries?

Historically, neoliberalism has had little to say about the environment. Developing countries were often encouraged to pursue growth as the top development priority. However, it is increasingly recognized that the health of the environment and the health of the economy are inextricably linked. Economic policymaking must become more inclusive and sustainable if it is to be successful in advancing growth and human welfare.

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6. Politics beyond neoliberalism

History does not end

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Economic policies do not exist in a vacuum. Political processes shape which policies get enacted and how they are implemented, as well as who pays for and who benefits from them. And economic policies and outcomes, in turn, shape politics and political outcomes. The two cannot be easily separated.

Yet neoliberal economic policy advisors often downplayed or ignored politics. Beyond vague appeals for "good governance," neoliberalism's focus on "best practices" that could apply uniformly to all countries dismissed how political contexts shape and constrain economic policymaking. Today, however, there is an increasing awareness that economic policy is inherently political, and that development interventions need to take politics and political processes seriously.[1]

This brief chapter assesses some of the broader political questions that will shape the future of emerging markets. It begins by placing the rise of neoliberalism in historical political context, then discusses the complex and contested relationship between neoliberalism and democracy, and identifies some of the key issues that will drive politics after neoliberalism. It closes by considering whether either of two potential alternatives to liberal democracy—authoritarian capitalism and neo-nationalism—will be lasting rival political models.

New political fault lines

In 1989, just before the fall of the Berlin Wall, Francis Fukuyama published his famous essay, and subsequent book, on "The End of History". Fukuyama's argument was that liberalism had triumphed and that the long historical struggle between Marxist inspired centralist socialism and market based democratic liberalism had ended with the victory of the latter.

Democratic liberalism in the sense of Fukuyama is a broad mantle. It includes social democracy reformed by the historic Bad Godesberg Congress in Germany (1959) as well as its other European variants. European Socialist and Social Democrat Parties embraced market based liberal economies and political systems. In this definition, the rights of individuals are paramount. So liberalism was not by any means confined to the political right. But of course it included conservative and centrist parties in Europe and the United States that had already adopted market based economic philosophies and that all put individual human rights "at the core of their political communities."[2]

Of course, Fukuyama did not project the end of politics. Arguments about fiscal and monetary policies, taxes and transfers, regulation, retirement, and other social policies continued. But the systemic and ideological clash between liberal capitalism and centralist socialism was over. It may be worth noting that this systemic clash was strongly felt all over the world for decades, except in domestic politics in the United States, where socialism had always been very weak.

By the early 1990s it seemed that Fukuyama's thesis was being borne out by the facts. Liberalism as broadly defined had triumphed over Soviet style socialism.

The disintegration of the Soviet Union and the disappearance of its socio-economic model also had a tremendous impact in developing countries. Many adopted some form of democracy during the 1990s. Soviet centralism was abandoned as an economic model, although autocratic regimes persisted mainly in Africa. This profound change in the world order was a victory for democratic liberalism at a time when neoliberalism had largely won the battle for pre-eminence within the panoply of liberal ideology.

What developed more widely in the 1990s was a less Keynesian liberalism, with a more limited role for pro-active monetary and fiscal policy, a great deal of financial sector deregulation and a great deal of privatization. This laissez faire liberalism, referred to as neoliberalism, was not a pure application of the Chicago school ideology and it varied a great deal: the United States and the United Kingdom were much more neoliberal than France or Japan, for example.

The neoliberal period was also one during which international cooperation flourished. The International Monetary Fund expanded its mandate and started dealing with microeconomic issues. The World Bank was active with policy loans, in which a mostly neoliberal set of policies were conditions for lending. The World Trade Organization increased its membership and assumed its arbitration role. A new regional bank, the European Bank for Reconstruction and Development, was created for the post-communist countries.

It is in this context that one has to understand the Washington Consensus, a term coined by John Williamson that refers to the advice given to developing countries by the IMF, the World Bank, or bilateral donors. This advice and the aid programs accompanying led to a wave of neoliberal advice being extended to the governments Latin America, Asia, and Africa. In the post-Soviet republics, particularly in Russia, such advice led to disaster, as the minimal institutions to make markets function did not yet exist. In 1997-98, a certain version of neoliberalism was also at least partly responsible for the great Asian financial crisis.

The performance of the advanced economies during the 1989-2007 period was mixed. There was no significant crisis or economic downturn; this time was referred to as the great moderation. Global growth averaged 3.7 percent and 3.0 percent in the United States. But income distribution became more unequal. A crucial feature of the neoliberal period was the decoupling of productivity growth from wages in many countries but particularly in the U.S. Income inequality increased with strong concentration at the top. The phenomenon was not as strong in developing countries, except China.

Looking at the period from 1989 to 2008 (Lehmann Brothers bankruptcy), one cannot therefore say that it was entirely smooth economic sailing. Inequality increased within countries and the Asian crisis caused substantial output losses. The neoliberal model had a quasi-monopoly on economic policy, or at least economic policy advice. The Keynesian brand of liberalism was weak and did not have much influence. When looking at the guidance developing countries received—privatize-liberalize prices, lower trade barriers, adopt flexible labor markets—it was essentially the same everywhere. One could almost interchange the country advice and get virtually the same set of recommendations. There certainly was no longer an altogether different socio-economic model as during the Cold War years. Moreover, the other strands of liberalism had lost intellectual influence, although policy practice still contained Keynesian traces and social democrat aspects in Europe.

However, *the political part* of the neoliberal model was not equally successful. While the number of democracies has increased, many countries remained dictatorships. This led to markets functioning under political control, which in turn facilitated corruption and nepotism. Nonetheless, the economies of these countries basically followed the neoliberal model and while some might not have engaged much in international cooperation, they did not disrupt widespread participation in multilateralism.

It is this neoliberal world that suffered the devastating 2008 financial crisis, threatening the world with a great depression on a scale not seen since the 1930s. At the height of the crisis, most observers thought that the spectacular failure of market capitalism would lead to a movement to the political left and the abandonment of large parts of neoliberalism. The question was asked: What comes after neoliberalism? Analysts in the U.S. predicted the return to more regulation and to Keynesian liberalism. In Europe, many went further and predicted a move towards new forms of socialism. In the developing world, neoliberalism lost its shine and observers eagerly followed the post-2008 events in the advanced countries. The Chinese model of strong state intervention gained sympathy, but it was not adopted by other countries. On the whole, it is fair to characterize the state of economic policy making in developing countries as a mixture of Keynesianism, neoliberalism, and socialism, with no clear direction for the future.

Capitalism and democracy: Modernization theory revisited

There is a long-standing debate in the social sciences on the relationship between capitalism, economic development, and democracy. Early proponents of this 'modernization' theory argued that economic development was an important catalyst of democratization.[3] The development of market-based economic institutions and democracy-based political institutions are assumed to go hand-in-hand. There is, after all, a certain harmony between the logic of economic neoliberalism and one-person-one-vote democracy, which both privilege individual liberty and share an assumption that individuals operating in their own self-interest will lead to efficient and stable society-wide outcomes.

Yet in reality, the relationship between democratic politics and neoliberal economics is much more complicated and contested. Many economic neoliberals embraced political structures that could shield markets from populist pressures that might gain power through democratic means, and attempted to "encase" markets from democracy, particularly in post-colonial settings.[4] Indeed, democratic demands for redistribution and the (possible) suspension of property rights suggest an inherent tension between democracy and lightly-regulated capitalism. At the same time, hopes among some political liberals that growing economic development and liberalization in authoritarian countries, particularly China, would necessarily unleash democratic pressures appear to have been misplaced.

Similarly, among the current crop of leaders who have adopted illiberal political policies, we do not necessarily see a concomitant shift away from neoliberal economic policies. While it is too early to draw any conclusions, leaders such as Brazil's Jair Bolsonaro appear to be quite happy with a broadly neoliberal economic outlook. Still other illiberal leaders, such as Hungary's Victor Orbán, have adopted a complex mix of both neoliberal and more interventionist economic policies.[5] While contemporary populists have often embraced strident rhetoric against multilateralism and the global economy—and in particular against migration—they are not necessarily rejecting global capitalism.

Ultimately, we observe substantial variation among both democracies and authoritarian countries in their choices of economic models. The linkages between economic development and democratization are not firm as was once believed,[6] as the economic policies adopted by democracies do not strictly conform to neoliberal economic principles, and illiberal leaders do not eschew capitalist policies. While economic policies and analyses can inform political debate, it cannot settle it.[7]

What comes after neoliberalism?

What is likely to emerge from the 2010s, which proved to be a period of political and economic crisis? For decades, be it in various forms, the center-right and center-left competed for power. Is a new politics likely to take form? The 2008 global crisis centered in the U.S. and the 2010 Euro-crisis is now behind us. What actually happened after 2008 crisis subsided has been very different from what was expected. Overall, there was a political shift to the right, epitomized in the victories of Brexit and Donald Trump. The increasingly inflammatory rhetoric and actions from autocratic-leaning populist leaders such as Viktor Orbán and Rodrigo Duterte of the Philippines demonstrate an unsettling trend. Although the specific drivers of these political changes vary, these movements all seek to undermine democratic institutions due to their perceived, and real, failures.

After a period of uncertainty, during which the direction the world would take was unclear, 2016 brought a wave of populism and nationalism. However, these movements were not born overnight. They were brewing over time, gathering strength during the early 2000s recession and gaining significant steam in the aftermath of the global financial crisis. It is unsurprising that one of the main economic weakness of the 1990-2010 era was worsening of income distributions.

While the recent rise, and spread, of populist and neo-nationalist movements have been linked to rising frustrations with economic inequality, globalization, and rising identity issues, one must also keep an eye to history. Cycles of populism and authoritarianism are often followed by waves of democratization, and vice-versa. This is often amplified by global political and economic crises, as evidence by the experiences of the 1930s. In this context, to what extent did neoliberal policy prescriptions lead to this rise in populism, and, is it possible to roll back the tide?

In assessing how emerging markets' political models may evolve after the neoliberal era, three key themes are paramount:

State capture, corruption, and the turn toward populism

In many countries, incomplete political transitions have allowed a small group of individuals to wield disproportionate political power. The concept of "state capture," where powerful firms and individuals are able to shape and distort lawmaking and regulatory processes to their own advantage, was first developed in the context of the former Soviet Union's liberalization process.[8] Here ambitious oligarchs were able to seize control during hastily organized privatization programs.

More recently, South Africa has been grappling with charges of state capture, following revelation of the extent to which the Gupta business empire influenced policymaking. Meanwhile, in Brazil, the complex web of corruption that links the construction conglomerate Odebrecht, the state-owned oil company Petrobras, and the Brazilian state has also come unraveled through the Operation Car Wash investigation. The challenge of state capture raises the question: which is the bigger obstacle to the future of political liberalism in developing countries—state-owned enterprises or enterprise-owned states?[9]

To the extent that state capture and corruption undermine the notion of equal representation in a liberal democracy, they contribute to weakening liberalism as a political model. They may also challenge the liberal model if citizens' respond to state capture by rejecting existing models and demanding new populist responses. As an empirical question, however, it is not clear if there is a generalizable relationship between corruption and demands for radical political change. Indeed, where corruption or state capture lives hand in hand with strong income growth, it is often accepted by citizens.

During the East Asian miracle, for instance, corrupt crony capitalism was widespread, but high growth ensured overall contentment. It is certainly true that in some countries, such as Brazil, entrenched corruption contributed to disaffection with elites and support for populist responses. Yet it is not clear that corruption can meaningfully explain the recent rise of populism, if only because corruption has been a regular feature of the political economy of many emerging markets for decades. Corruption is tolerated so long as the state is able to get things done; it is when the state falters that complaints about corruption and demands for populist responses arise. The inability of ruling parties in recent years to deliver functional services, internal security, and more equitable economic growth have driven increased support for newly elected, and currently serving, populist rulers.

Accountability and legitimacy beyond liberal democracy?

In principle, liberal democracy is expected to provide societies with accountable and legitimate governments, leading to policies that reflect voters' well-informed and considered preferences. In practice, however, the "romantic folk-theory" that rational voters use elections to ensure governments adopt their preferred policy outcomes appears to be largely a myth.[10] Voters frequently fail to demonstrate strong preferences or good foresight, and often choose parties and candidates on the basis of identity or partisanship more than a careful evaluation of policy positions. Elections often turn on events largely beyond the control of incumbent politicians, such as a run in the stock market or even the weather.

If electoral mechanisms are often an imperfect and incomplete means of achieving accountable and legitimate government, are there alternative means for achieving these objectives? Today governments are experimenting with new approaches to achieve accountability and legitimacy without necessarily adhering to liberal democratic models.

For instance, in China the Communist Party instilled reforms to make its vast bureaucracy more competitive and responsive to business needs through "directed improvisation" between party bosses and local officials.[11] Additionally, the Chinese concept of social credit (shehui xinyong) serves not only to localize governance, but also influences market behavior of citizens and corporations alike. China's citizens are also able to exert some influence over bureaucrats through informal accountability mechanisms organized around solidary groups, such as churches and temples.[12] Such measures of diagonal accountability engage citizens more directly in governance processes, relying on a "fire alarm" model of oversight that asks citizens to identify problems.[13]

Moreover, technological advances that lower the cost of transmitting information may make it easier for non-democratic regimes to encourage both accountability and legitimacy. Digital governance tools allow governments to elicit citizen opinions and respond quickly to demands for change, outside of electoral channels. These advancements can benefit both liberal and illiberal regimes to not only improve accountability, but also bolster legitimacy.

Other countries with even weaker formal institutions are also experimenting with novel governance mechanisms. For instance, in Afghanistan there have been successful attempts to build accountability through community-level institutions that encourage feedback loops between citizens and governments, even absent the formal underpinnings of a liberal democratic state. Overall, there are many informal and indirect means that even non-democratic governments are using to respond to and engage with their citizens.

Similarly, competitive liberal democracy may not be the only route to state legitimacy in the 21st century, as Fukuyama had earlier assumed. Ruling governments may be able to retain widespread legitimacy through effective performance, rather than by facing voters. Numerous one-party states—both de jure (China, Vietnam) and de facto (Singapore, Ethiopia)—have held on to power by delivering material gains to their populations. In other more clientelist regimes, particularly in the Middle East, governments have clung to power by distributing rents to powerful interest groups—buying off citizens, rather than getting them to buy- in to the state's authority. Of course, when governments attempt to achieve legitimacy through economic performance or distributing rents, rather than through democratic principles, their legitimacy may be tenuous and quickly evaporate in the face of economic pressures.

To be clear, none of this is meant to imply that democracy isn't important, or that non-democratic countries are equally responsive to their citizens. But it highlights the need for a more careful consideration of what constitutes accountability and legitimacy for modern states. While democracy is both inherently and instrumentally valuable, the fact that some non-democratic countries are able to achieve some measures of accountability and legitimacy suggests that demands for democratization may be less powerful than we would otherwise expect.

Individualism versus the power of group identities

In the simplified neoliberal political model, rational individuals vote based on their own preferences, while politicians vie to convince them they can best implement their preferred policies. Yet in both consolidated and newer democracies, political contestation has proven much more complicated. Voters often define their interests not as individuals within one common nation state, but as members of a particular identity group, in contestation with other groups. This can redefine social cleavages and axes of political contestation, and may decrease politicians' motivations to appeal to swing voters. In former colonial countries, where political boundaries map imperfectly alongside pre-existing national or ethnic geographies, these issues have long played an important role in politics. This calls into question neoliberalism's focus on the individual as the most important level of analysis for understanding political contestation. At the same time, stark increases in economic inequality and the resurgence of identity politics may be responsible for a reframing of political discourse away from economic issues towards distinct group interests, as Fukuyama has recently argued.[14]

If politics is contested not among individual, rational self-interested voters but instead among organized groups and communities, what does this imply for the future of democracy? A key question is what form such groups will take, and how they will define their membership and interests.

In the past, organizational groups and unions often served as a key focal point for defining voter interests and identities. Yet the membership and political influence of unions and similar groups have seen a steady decline in recent decades, often facilitated by neoliberal policy changes. In their place, identity-based politics and organizations have found new prominence. The challenge today is to revive organizational structures that can channel group-based politics into inclusive, cohesive, non-discriminatory policy outcomes.

Will a new political model emerge as viable alternative to capitalist liberal democracy?

Fukuyama's history is continuing in an unexpected fashion. The old holistic struggle between liberalism and communism and the more recent struggle between Keynesian liberalism and neoclassical neoliberalism seems to be on the verge of being replaced by new divides. On the one hand, authoritarian capitalist models combine single-party politics and deep links between the government and the private sector, with integration in the global economy and at least some reliance on market-based mechanisms to allocate resources. On the other, neo-nationalist models are built on a sense of exclusive community and a belief of unavoidable conflict in a Darwinian world. Do either of these models represent a serious long-term challenge to capitalist liberal democracy?

The economic success and political stability of many authoritarian capitalist countries has generated considerable interest in replicating this model. China, of course, is the most prominent example of this approach; yet China is also sui generis, and it is not clear to what extent countries with smaller internal markets can mimic China's policies. There are a number of other countries, however—including Singapore, Vietnam, and Ethiopia—that also adopt some measures of authoritarian capitalism. These countries all seek to engage in the global economy while keeping strategic industries under government control. As China and other authoritarian capitalists engage in more outward foreign investment and build economic links with other developing countries, the appeal of this model may spread.

The recent rise in neo-nationalist politics, meanwhile, appears to be a response to perceived excesses of globalization and cosmopolitanism. These trends may constitute a new ideological battle, as the animosity of the neo-nationalists towards the liberals is much stronger than the animosity that existed within the various strands of liberalism. Note that the neo-nationalists want to get rid of all types of liberalism, not just neoliberalism. Defending liberalism against neo-nationalism is not defending the particular brand called neoliberalism. Neo-nationalists are not liberals and have their roots in ideas that are fundamentally illiberal. Many of their ideas can be found in the writings of Carl Schmidt (see Mark Weiner) who joined the Nazi party in Germany in 1933. For the neo-nationalists, nation-states are in a constant struggle with each other: there is room for "deals" to be made, but there is no room for the international norms and rules of a liberal world order. The individual has to conform to the national community, and these communities are in constant struggle with each other.

While many authoritarian capitalist countries have embraced globalization, neo-nationalist ideology presents a deep challenge to globalization and international cooperation. Authoritarian capitalist and liberal democratic countries may be able to coexist in many international fora, but this will be more difficult for neo-nationalists. While it is a coherent ideology, it tends to lead to devastating conflict.

What comes next will most likely be a more chaotic international order, where hybrid democracies pursue a mélange of economic and social policies that are politically expedient and beneficial. In many ways, we have already arrived at this future. How well it will function remains an unanswered question.

A huge challenge for developing countries

This is the background for the policies and strategies developing countries can adopt. They face a new world with very uncertain political outcomes and behaviors. It is a world where a few globalized firms are as large as medium sized economies, and where anti-monopoly policies must have international dimensions. It is a world where new-technologies define new markets.

This pending disruption comes at a moment in history when, after long struggles, developing countries have finally won greater equality within the multilateral system. Yet multilateralism and international cooperation are breaking down because of the powerful rebirth of nationalism around the world. On the domestic front, winner-take-all practices seem to overwhelm the checks and balances of western democracies. Few predicted that just a few years ago, when globalization seemed ascendant. The new dominant fault-lines seem to lie between democratic liberalism, neo-nationalism, and authoritarian capitalism. Developing countries will have to choose how to maneuver in such a world, evaluate competing political models, and adapt to circumstances where cooperation has become more difficult.

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[1] See, for instance, the World Bank's 2017 World Development Report on Governance and the Law.
[2] Weiner, Mark. "Trumpism and the Philosophy of World Order." *Project Syndicate.* July 23m, 2018. www.project-syndicate.org/commentary/trumpism-is-carl-schmitt-in-action-by-mark-s--weiner-2018-07
[3] See in particular Seymour Martin Lipset, "Some Social Requisites of Democracy." *American Political Science Review* 53, no. 1 (1959): pp. 69-105.
[4] Quinn Slobodian, The Globalists, Harvard University Press.
[5] See "Hungary's unorthodox economic policies" https://financialobserver.eu/ce/hungarys-unorthodox-economic-policies/
[6] See Acemoglu, D., Johnson, S., Robinson, J., and Yared, P. (2005) Income and Democracy American Economic Review 2008, 98:3, 808–842. https://economics.mit.edu/files/9037
[7] See "Economic Analysis to Inclusive Growth" https://www.brookings.edu/opinions/from-economic-analysis-to-inclusive-growth/
[8] Hellman, Jones, Kaufmann 2003
[9] This line is an unattributed quote reported by Duncan Green https://twitter.com/fp2p/status/1071056766908157954
[10] See in particular Christopher H. Achen & Larry M. Bartels, *Democracy for Realists: Why Elections Do Not Produce Responsive Government*, Princeton University Press, 2016.
[11] Yuen Yuen Ang, *How China Escaped the Poverty Trap*, Cornell University Press, 2016.
[12] Lily Tsai, *Accountability Without Democracy: Solidary Groups and Public Goods Provision in Rural China*, Cambridge University Press, 2007.
[13] On the fire alarm model of oversight, see Mathew D. McCubbins and Thomas Schwartz, "Congressional Oversight Overlooked: Police Patrols versus Fire Alarms." *American Journal of Political Science* 28 (1): 165-179, Feb 1984.
[14] Fukuyama, Francis. "Against Identity Politics." *Foreign Affairs.* September/October 2018. https://www.foreignaffairs.com/articles/americas/2018-08-14/against-identity-politics-tribalism-francis-fukuyama

7. Conclusion

Toward a new economic and political model?

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It is difficult, if not foolhardy, to attempt to succinctly summarize such a broad-ranging and complex subject as the future of neoliberalism in emerging markets. So, in these brief concluding remarks we do not seek to offer anything close to a final word on the topic, but rather to sketch out some guideposts for ongoing discussion.

One initial takeaway is that current debates on neoliberalism and the future of capitalism in the U.S. and Europe do not always easily map onto emerging markets' experiences. In many countries in the West, this debate is often framed as a need to move from the near total acceptance of neoliberalism of the past several decades to a fundamental rethinking of economic systems. In many emerging markets, conversely, there was never as strong a consensus on the merits of neoliberalism to begin with, and the pivot to the post-neoliberal era has been more gradual and fragmented.[1] Indeed, in moving beyond neoliberalism, emerging markets are rightfully cautious of swinging too far in the opposite direction, of throwing the baby (successful market-oriented reforms) out with the bathwater (neoliberalism as an all-encompassing policy framework).[2] Many emerging markets have recent memories of deeply statist command economies that abjectly failed to deliver widespread economic gains. The implementation of market reforms helped unleash private sector growth in many (though not all) countries; this growth, in turn, helped drive the most rapid decline in global poverty in history. Emerging markets continue to prioritize GDP growth as a central policy goal, and there is a general agreement that some level of market orientation is needed to deliver this growth.

Yet this is, of course a far stretch from fully embracing neoliberalism. The neoliberal policy agenda for emerging markets was flawed and incomplete in many ways. Its shortcomings stand out in five particular areas. First, neoliberalism did not pay sufficient attention to the risk of financial crises and to the devastating impact of such downturns on economies' long run trajectories. Second, neoliberals tended to dogmatically reject industrial policy, even though support for industries has at times proven very effective (particularly in Asia).[3] Third, neoliberalism was largely indifferent to inequalities, considering distributional issues as (at best) a second-order concern. Fourth, the environment was under-prioritized, leading some countries to pursue economic policies that aggressively degraded environmental resources, which led to costly health hazards from polluted air and contaminated food, among other harms. Fifth and not least, neoliberal policy failed to grapple with how dysfunctional political processes could allow for the elite capture of the state, and how politics constrains economic policy options. These issues are important policy challenges in their own right, but are also instrumentally important to neoliberalism's primary objective of economic growth.

As one means of gauging support for various neoliberal and alternative policy positions across these five issue areas, we conducted an online survey of experts regarding economic and political policies in emerging markets. The results, presented in Appendix A, suggest there is indeed support for moving beyond neoliberalism, yet a significant diversity of views on what this should entail. At the outset of this project, one of the core questions we were interested in was whether emerging markets were converging on an alternative model(s), and what the key features of such an approach might be. By "model," we mean a coherent and consistent set of policy guidelines that could be generally applicable across countries, similar in scope and scale to neoliberalism. The survey results, the chapters in this report, and the discussion at the workshop all suggest the answer to this question is a qualified "no"—while there are some very broad points of agreement on the direction economic policy should be heading in emerging markets, there is nothing comparable to the coherent vision of neoliberalism.

In its purest form, neoliberalism offered an appealingly simple and straight forward policy program, as discussed in the introduction to this report. Neoliberalism focused on one particular mechanism—market competition—that could be applied to almost any economic policy problem. Moreover, its policy recipe applied across space and time; while there was flexibility to adapt neoliberal principles, there were no boundary conditions delineating where neoliberalism did or did not apply. This combination of flexibility and universalism is one of the reasons neoliberal ideology was so influential and had such a wide-ranging impact on policy practice.

This perhaps suggests that it will take a similarly simple and all-encompassing paradigm to displace neoliberal ideology—a new universal model. Yet another takeaway from this project is that no such model is likely to arise soon, nor should we necessarily want it to. Indeed, to the extent that agreement is emerging around the need to move beyond neoliberalism, expert views appear to be moving in the opposite direction of a relatively simple, new model. Instead, a shift is occurring away from simplicity toward complexity, away from best practices toward second-best and context-dependent analysis, away from consensus (Washington or otherwise) toward diversity of thought, and away from certainty toward humility and agnosticism.[4]

In this context, it would be a mistake to seek out an alternative model to neoliberalism as a universal project. The fundamental issue is that different problems require different solutions in different contexts; moreover, we have limited knowledge *a priori* about what solution will work best in what context. Countries need to tailor their own configurations of state- and market-led institutions to their specific contexts, and we should expect considerable variation in their approaches. To replace neoliberalism's focus on markets with a similarly simple policy framework would be to imitate one of its greatest shortcomings—the assumption that one mechanism (or a short set of policy principles) can apply to all problems.

If neoliberalism is unlikely to be replaced by a new model, then what should come next? We believe the most promising path is for policymakers to embrace pragmatic experimentation, eschewing ideological divides for a more problem-driven approach to economic policymaking. Such an approach would start not from abstract debates about the merits of states versus markets, but from a commitment to address the concrete problems facing citizens by whatever mechanism proves most effective. Through iterative experimentation and evolution, emerging market policymakers can develop a broader, more eclectic toolkit to address their most pressing challenges.

The ongoing shift toward more problem-driven, experimental, and evolutionary policymaking will result in a more varied, fragmented, and incoherent policy landscape. Rather than the universal umbrella of neoliberalism, or even the Cold War era of competing capitalist and socialist models, this shift will see the development of a broad range of idiosyncratic and *ad hoc* policy responses both across and within countries.

Such incoherence may be messy, but it can also be productive, as Ilene Grabel has recently argued.[5] Countries experimenting and innovating in small, disparate ways can foster new learning, nationally and with others, and can learn from their policy successes as well as their failures. It is difficult to accurately predict how different policy initiatives will ultimately fare in the abstract; the only path forward is to muddle through with multiple, heterogeneous improvisations, and to see what works. Such improvisation may never coalesce into a stable equilibrium of a new model, or even several different competing models. But it may allow countries to productively and pragmatically develop stronger economic and political institutions attuned to their specific needs.

As a narrow question of political strategy, those impatient to see neoliberalism replaced across the world might be frustrated by this approach. After all, neoliberalism's influence is likely at least partially tied to its clarity and simplicity. A new 10-point policy template that could be transplanted across countries might be easier to organize around, in order to coordinate political action.

This, then, is the challenge for the ongoing movement seeking to shift government policy beyond neoliberalism: how to organize for transnational policy change while recognizing the need for complexity and nuance and lack of any clear policy template. There is certainly momentum in this movement today, as evidenced by the many debates on the future of capitalism. The question is how to maintain this momentum for what will necessarily be a long-term process.

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[1] This is not true of all emerging markets, however; some, such as Argentina, have dramatically swung between ideological poles.
[2] For a related argument, see Arvind Subramanian's response in the Boston Review Forum *Economics After Neoliberalism*, March 19, 2019.
[3] It is worth noting here that even the IMF has recently admitted that industrial policy is at time beneficial; see Reda Cherif and Fuad Hasanov, "The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy", IMF Working Paper WP/19/74, 2019.
[4] This shift has in fact been underway for some time; see, in particular, Dani Rodrik, *One Economics, Many Recipes*, Princeton University Press, 2007.
[5] See Ilene Grabel, *When Things Don't Fall Apart: Global Financial Governance and Developmental Finance in an Age of Productive Incoherence*, MIT Press, 2018.

Appendix A: Results of an expert survey on neoliberalism

As part of this broader project, the Global Economy and Development program at Brookings conducted an online survey of think tank, academic, and policy experts working on economic and political policy issues in emerging economies.[1] We asked respondents their views on some principles underlying neoliberalism, as well as on a number of specific policy options across the five core subjects covered in this report. Most questions asked respondents to express their support for various statements on a scale from 1 (Strongly Disagree) to 10 (Strongly Agree). The survey results were used to inform the discussion at the January workshop; this appendix presents the results and summarizes their key findings.

Overall, five key takeaways stand out.

First, on most questions there was significant diversity in opinion among survey respondents. This is a notable finding in and of itself. After all, the idea behind the Washington Consensus was that it was, in fact, a consensus. This survey suggests that old consensus no longer holds; but also that, on many issues, there is not necessarily a new consensus (whether the "Beijing Consensus," the "Post-Washington Consensus," or something else) that has taken its place. This is perhaps most evident from the question that asks whether the American, European, or Chinese economic system presents the best model for developing countries, where over half of respondents answered none of the above. There is no single template for countries to follow, and less consensus on what constitutes "best practice" economic policy.

Second, though there was substantial diversity in opinions overall, the survey results do suggest some areas where there was a convergence of views. Most notably, there was a broad agreement that political and economic inequalities have become a major problem, and that governments should do more to address them. Large majorities agreed that concentration of income among the top 1 percent was a major policy concern, that reducing income inequalities between citizens was as important a goal as increasing GDP per capita, and that capital owners and business elites have captured economic policymaking to promote their own interests. This highlights some of the drivers of the populist challenges to prevailing economic models, a stark warning sign for policymakers around the world.

Third, respondents also expressed substantial support for a broader role for the state in managing the economy and society. Respondents believed the state has a responsibility to protect the natural environment (even when doing so diminishes economic growth), and a responsibility to ensure all citizens' basic needs are met. Similarly, there was substantial support for the view that governments should do more to regulate powerful companies, and moderate to strong support for the view that governments need a national strategy to guide and shape private investments. There were more mixed views on the desirability of state-owned banking and the importance of privatizing state-owned enterprises. In general, these views supporting a more active state suggest an important break from the neoliberal understanding of the role of the state.

Fourth, the one area where the neoliberal consensus maintained relatively broad support was in central banking. In particular, there was strong support for the view that central banks should be independent and insulated from political pressures, as well as moderate support for the view that flexible exchange rates should in general be preferred to fixed exchange rates. This shows that not all elements of neoliberalism have become unpopular. (However, there was a deep divide among respondents on whether central banks' sole responsibility should be promoting low and stable inflation.)

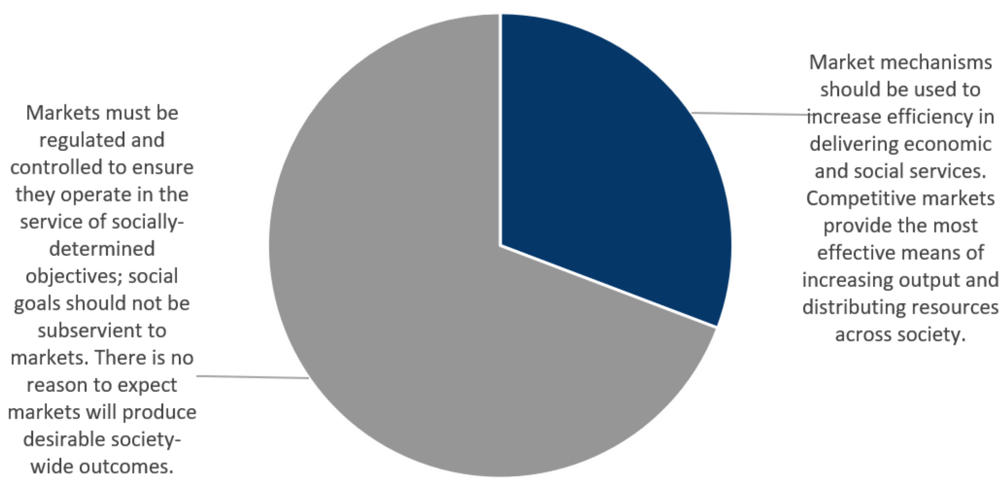
Fifth and finally, the survey does not find much support for a retreat from globalization or multilateralism, as some anti-neoliberal politicians have embraced. Respondents had mixed views on the merits of trade and foreign direct investment, but only a small minority had strongly negative opinions. Moreover, there was strong support for international collaboration on regulatory affairs and on action to limit carbon emissions. However, there was one strand of globalization that respondents did challenge: a large majority agreed with the view that "Financial globalization has gone too far."

In general, the survey results presented on the following pages provide some initial insights on the priorities of think tank, academic, and policy experts in moving beyond neoliberalism. While we should be cautious about drawing any strong conclusions based on this limited sample, this survey does suggest that these experts are open to a wide range of possible policies in moving beyond neoliberalism in emerging markets.

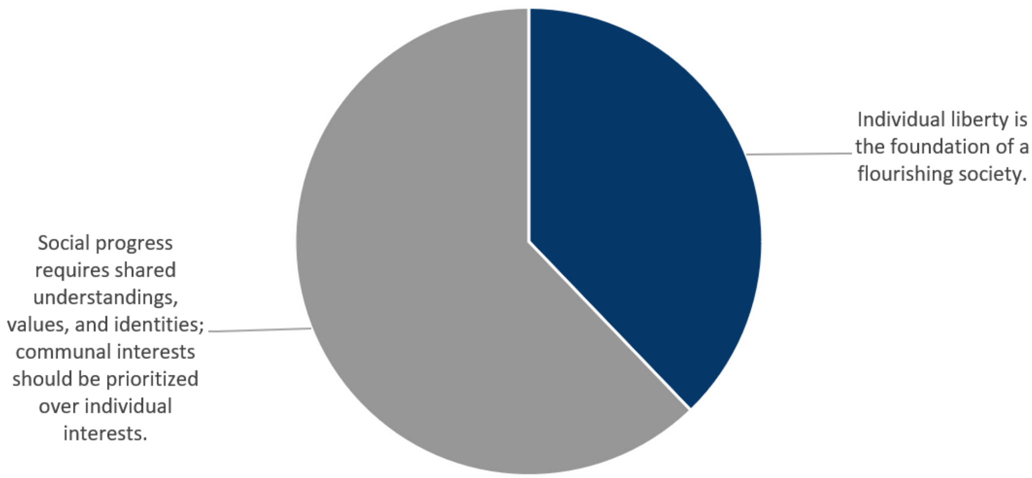
Principles of Neoliberalism

Note: Participants were asked which of the two statements they most strongly agreed with (i.e. they could not choose both).

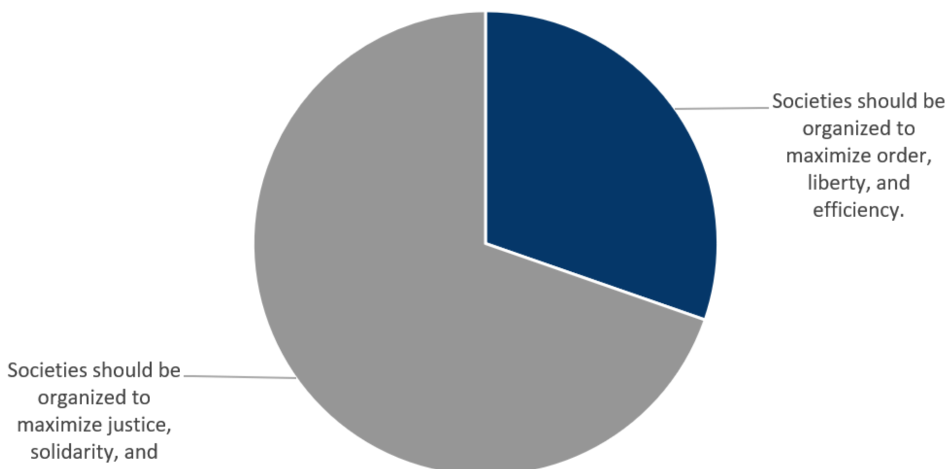
On the role of markets



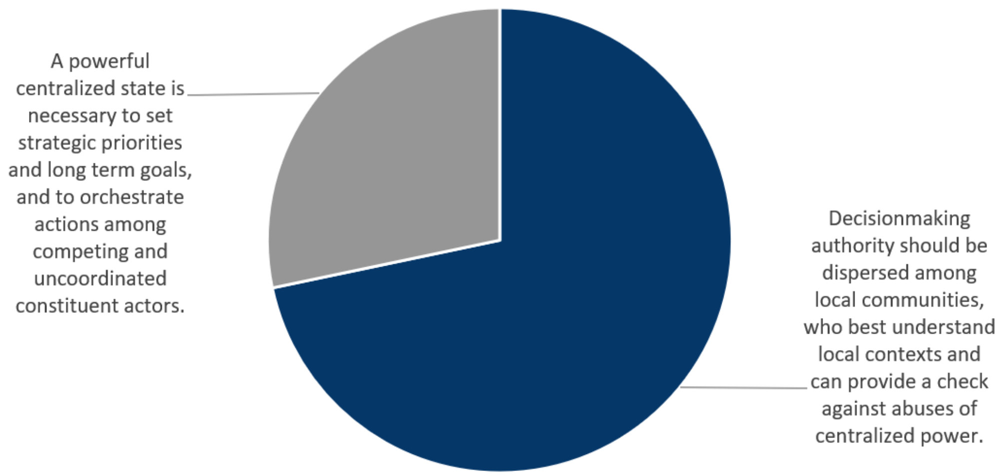
On individual vs communal interests



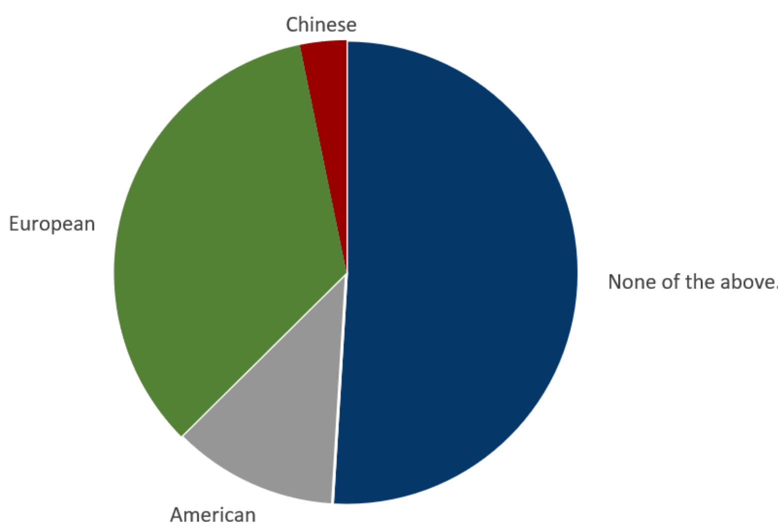
On principles for organizing society



On centralized vs decentralized power



"The ___________ economic model provides a template that other countries should follow"

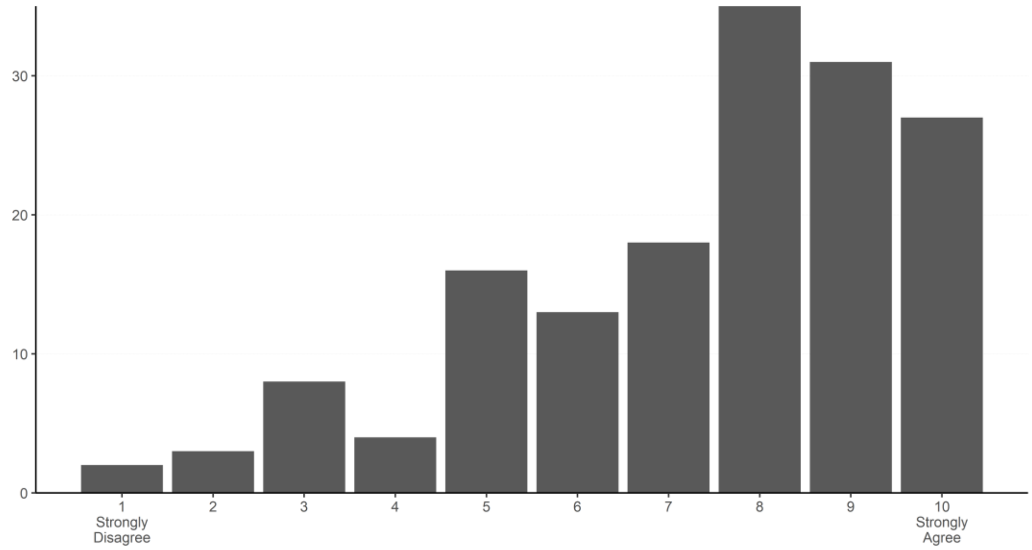


Statements on policies

Finance and monetary policy

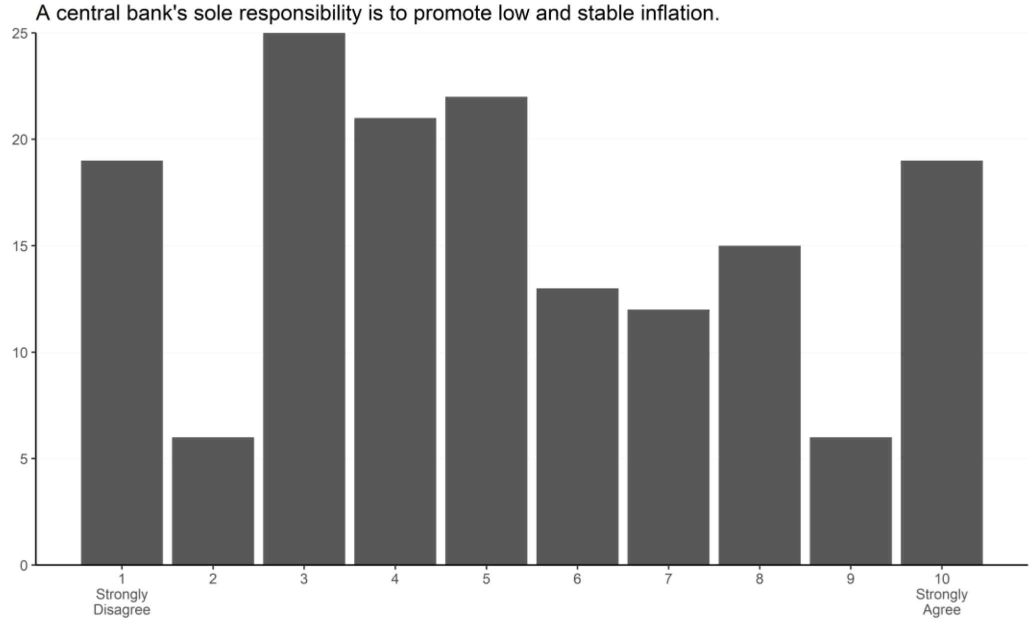
Note: Participants were asked to rate how strongly they agreed with each of the following statements on a scale of 1 to 10, where 1 is 'Strongly Disagree' and 10 is 'Strongly Agree.'

With the exception of countries in a currency union, in general the benefits of a flexible (floating) exchange rate regime outweigh the costs, and thus should be preferred to a fixed exchange rate regime.



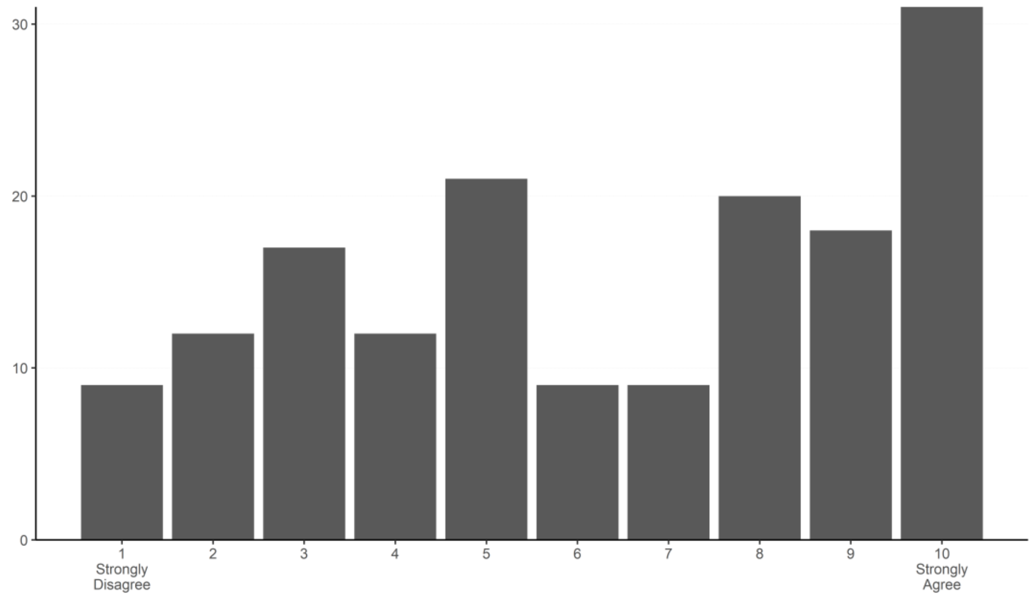
Mean: 7.39 S. Dev: 2.22 N: 157

A central bank's sole responsibility is to promote low and stable inflation.



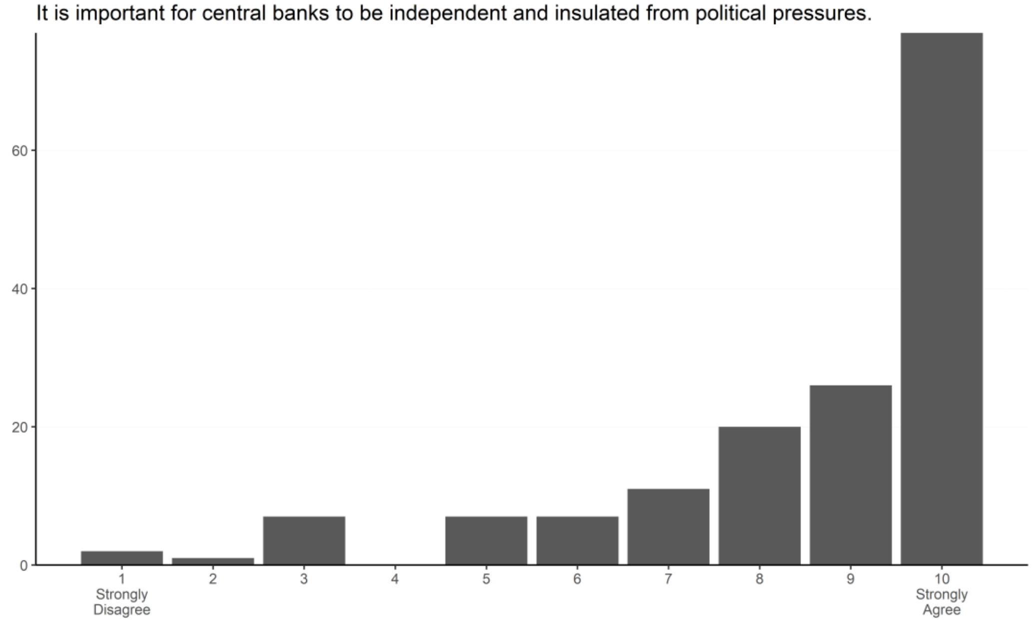
Mean: 5.23 S. Dev: 2.81 N: 158

Financial globalization has gone too far.



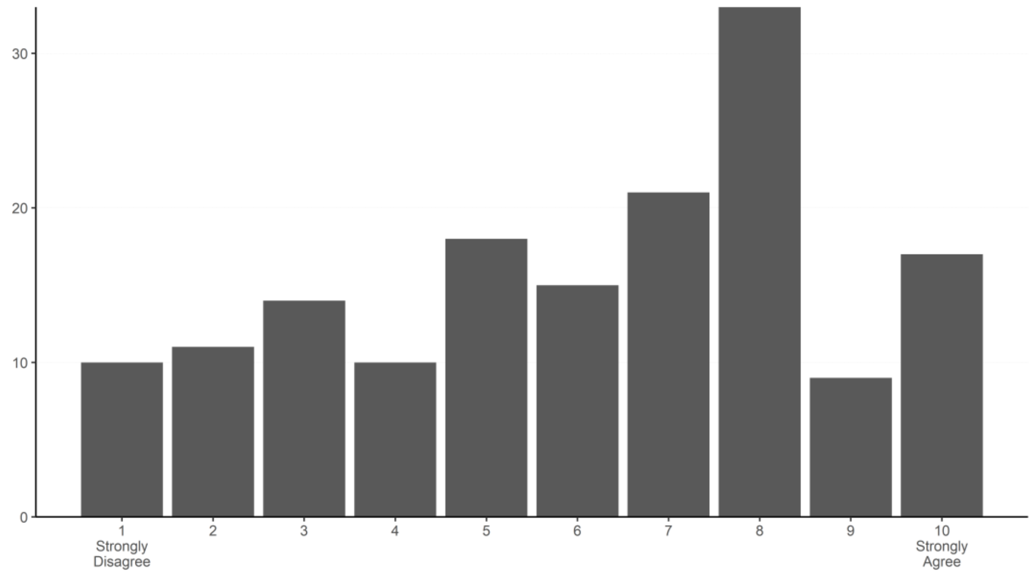
Mean: 6.24 S. Dev: 2.96 N: 158

It is important for central banks to be independent and insulated from political pressures.



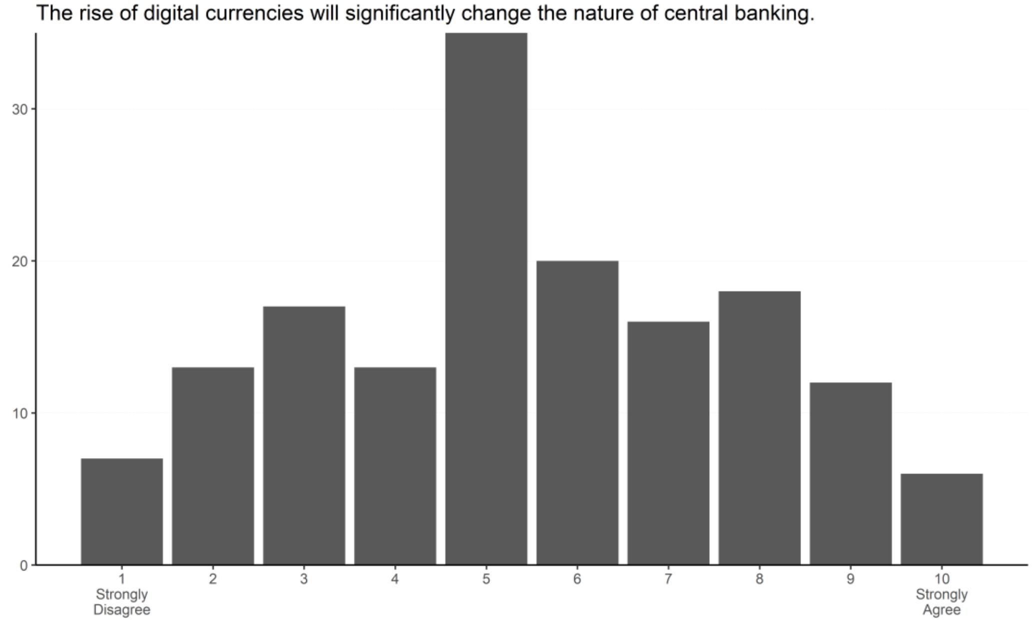
Mean: 8.5 S. Dev: 2.12 N: 158

State-owned banks can effectively complement and address gaps in private banking systems, and promote socially beneficial investments.



Mean: 6.05 S. Dev: 2.67 N: 158

The rise of digital currencies will significantly change the nature of central banking.

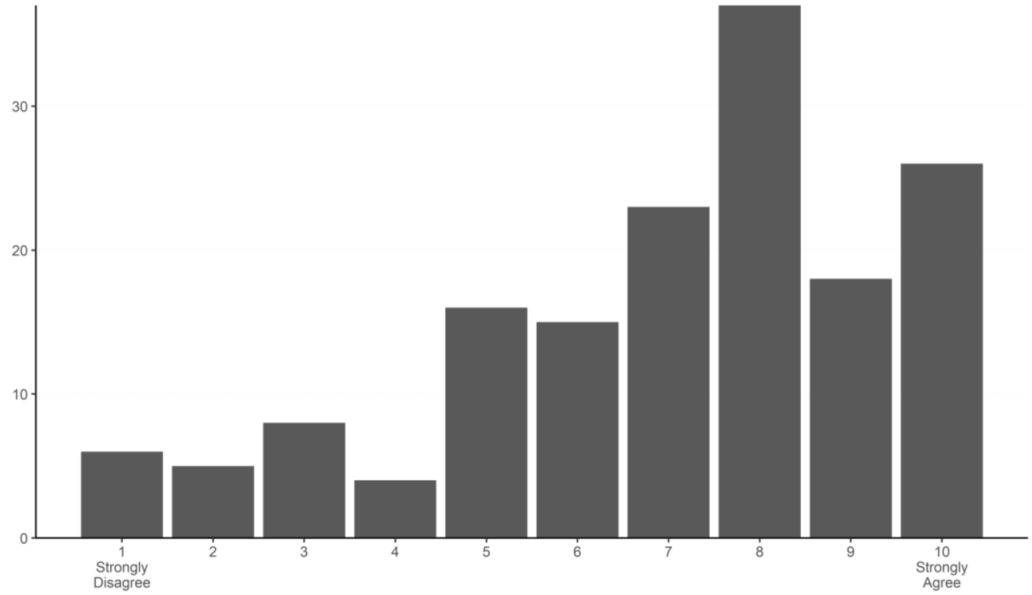


Mean: 5.45 S. Dev: 2.36 N: 157

Industrial policy

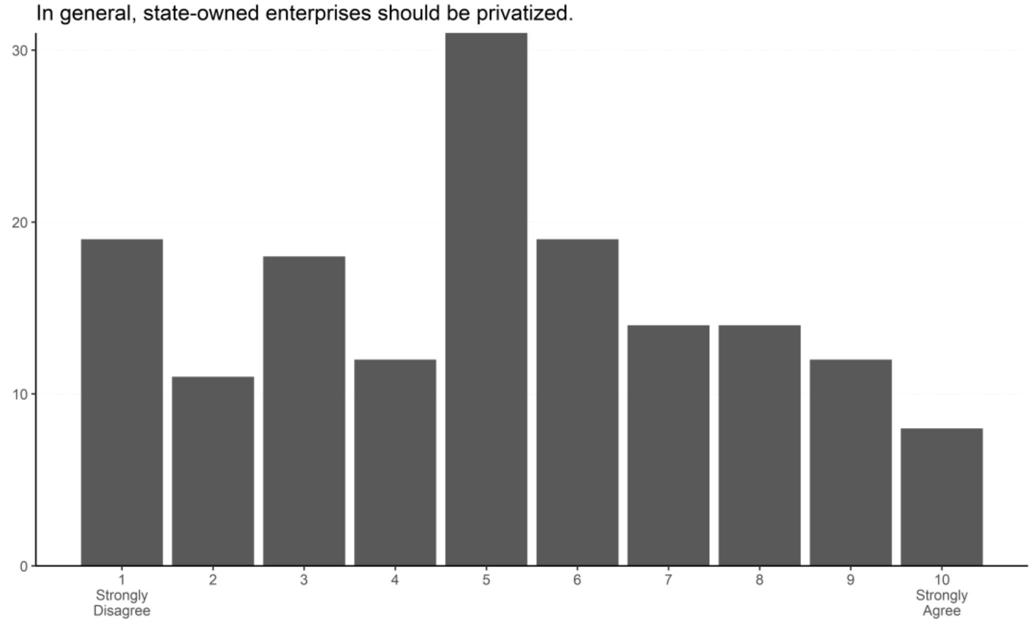
Note: Participants were asked to rate how strongly they agreed with each of the following statements on a scale of 1 to 10, where 1 is 'Strongly Disagree' and 10 is 'Strongly Agree'.

Governments need national strategies to guide and shape private sector investments.



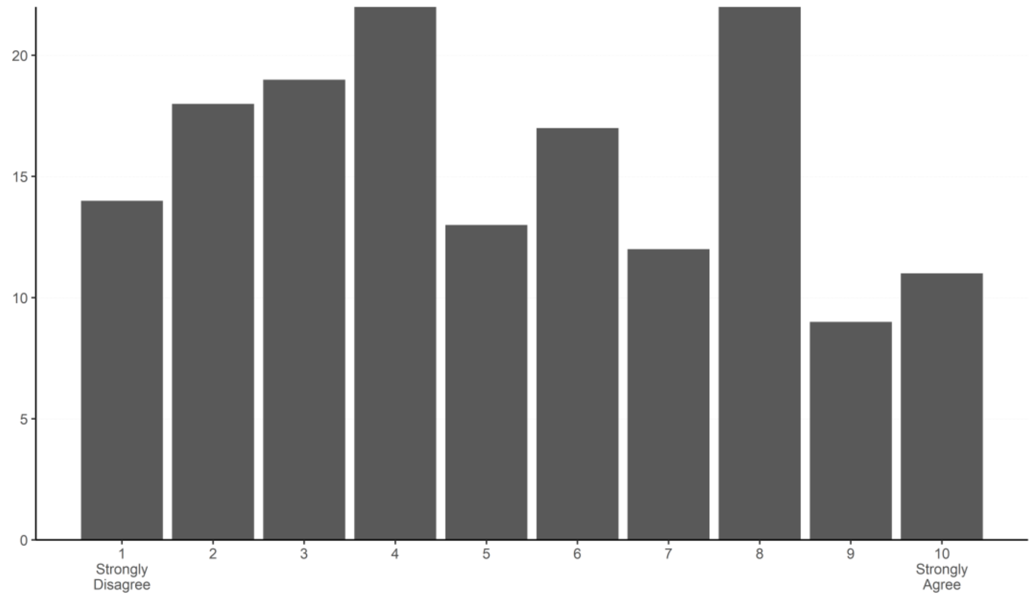
Mean: 6.99 S. Dev: 2.43 N: 158

In general, state-owned enterprises should be privatized.



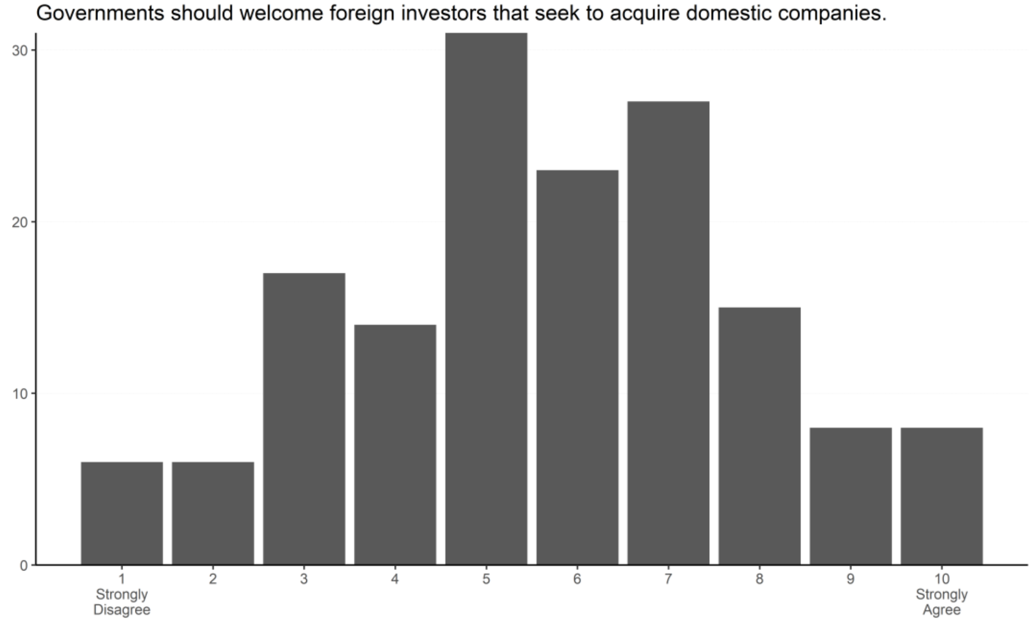
Mean: 5.13 S. Dev: 2.62 N: 158

Selected barriers to international trade can be an important tool in promoting economic development.



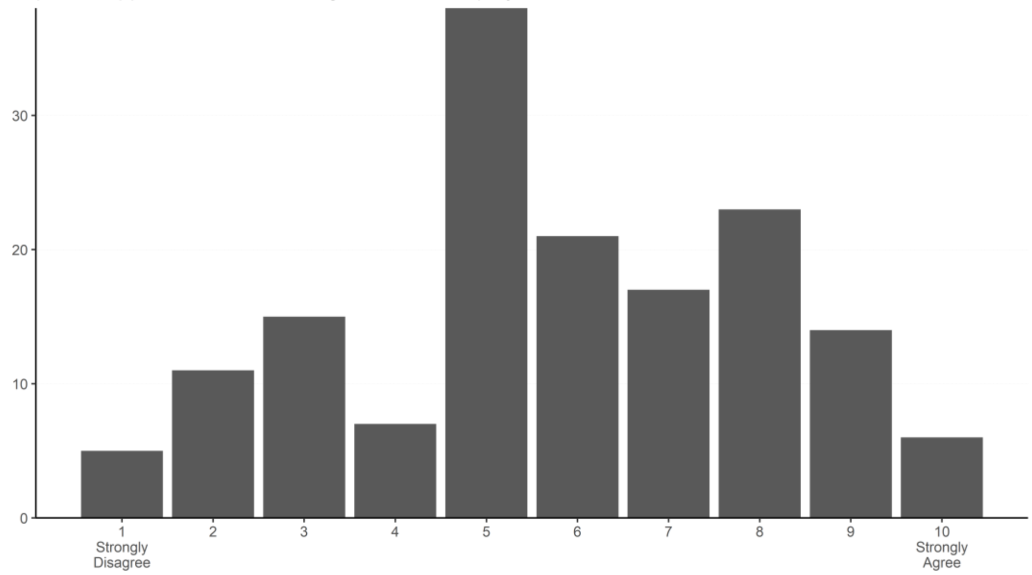
Mean: 5.18   S. Dev: 2.73   N: 157

Governments should welcome foreign investors that seek to acquire domestic companies.



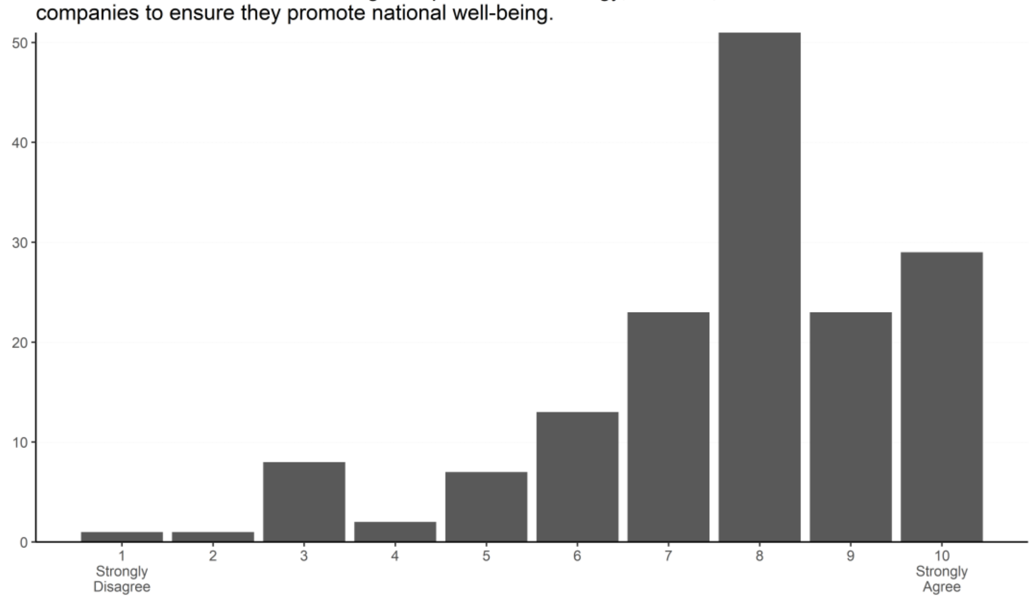
Mean: 5.67   S. Dev: 2.22   N: 155

In general, public-private partnerships (PPPs) are superior to either purely public or purely private approaches to delivering infrastructure projects.



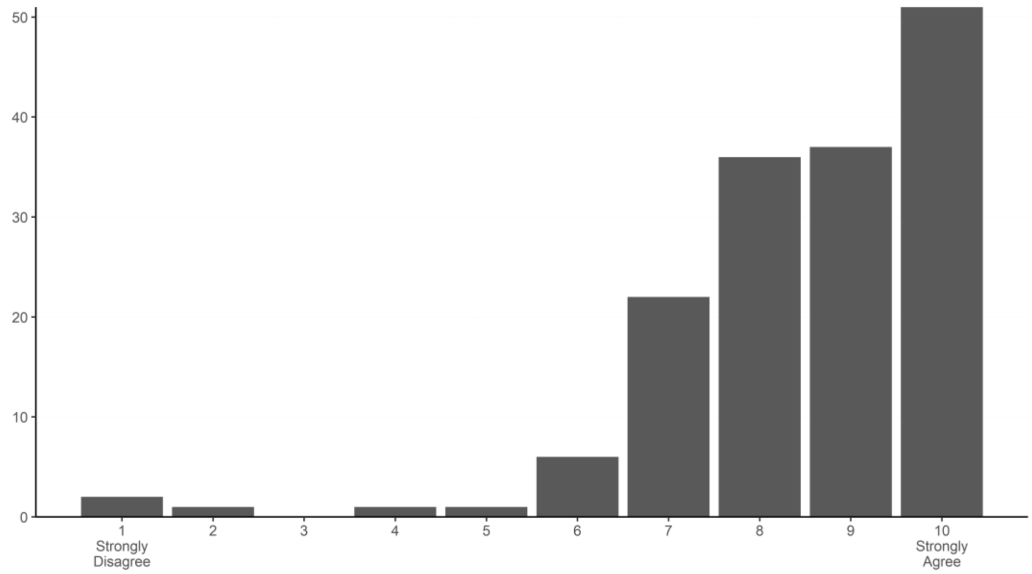
Mean: 5.76 S. Dev: 2.3 N: 157

Governments should do more to regulate powerful technology, financial, and natural resource companies to ensure they promote national well-being.



Mean: 7.68 S. Dev: 1.92 N: 158

Globalization and technological advances require greater international cooperation on regulatory affairs.

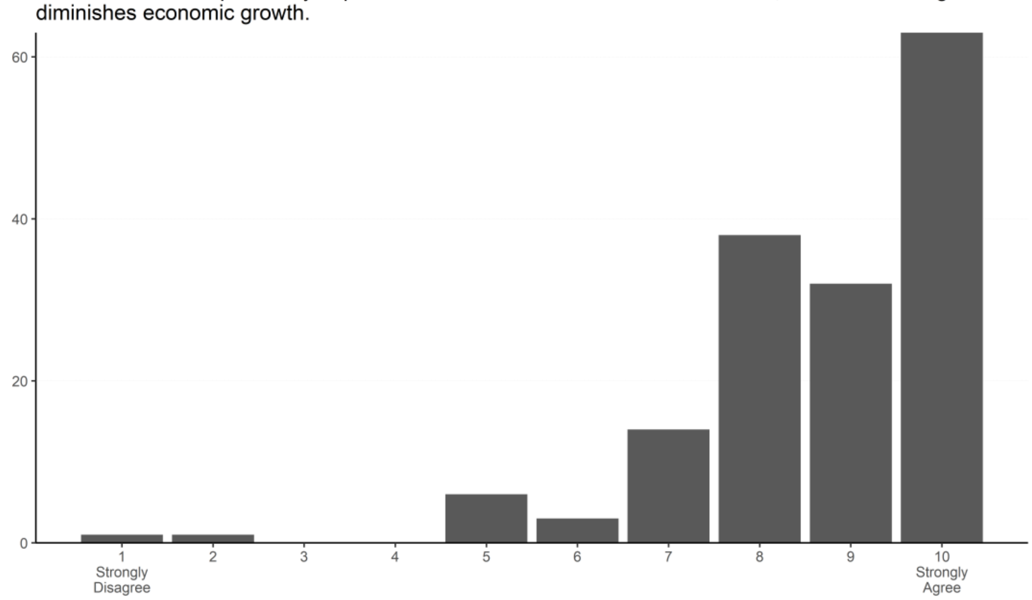


Mean: 8.5 S. Dev: 1.62 N: 157

Natural resources and the environment

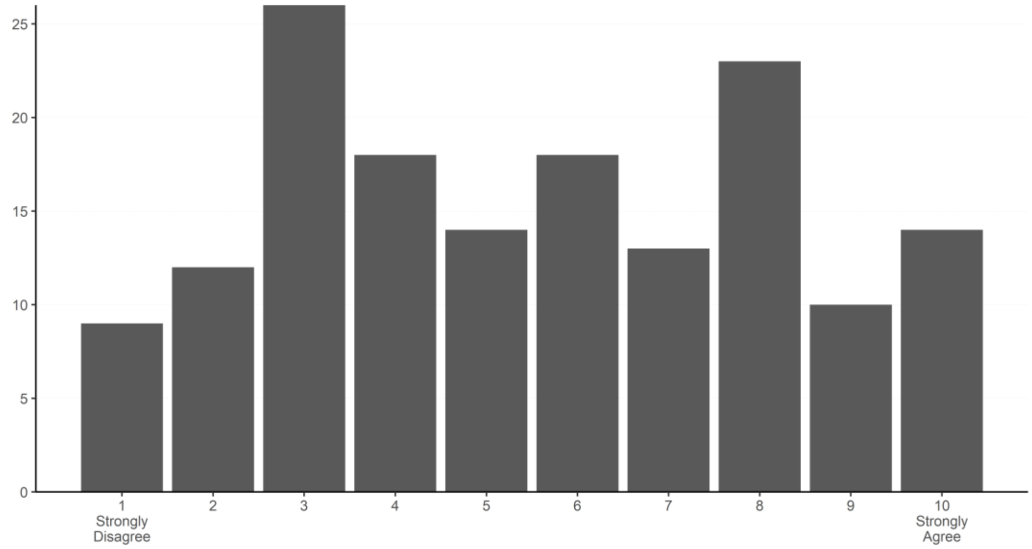
Note: Participants were asked to rate how strongly they agreed with each of the following statements on a scale of 1 to 10, where 1 is 'Strongly Disagree' and 10 is 'Strongly Agree'.

The state has a responsibility to protect and conserve the natural environment, even when doing so diminishes economic growth.



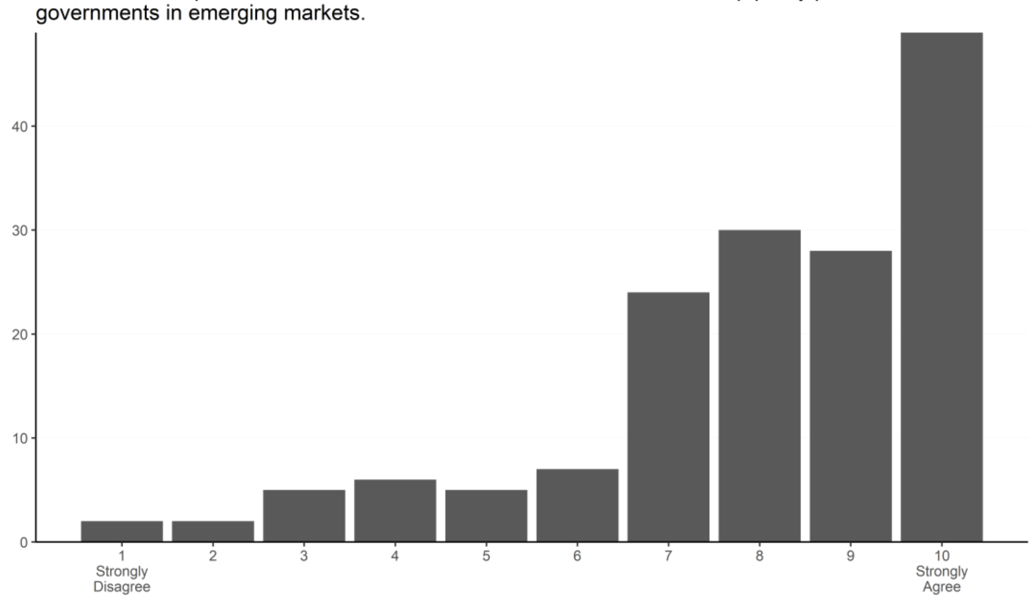
Mean: 8.68 S. Dev: 1.55 N: 158

If regulatory agencies require firms to publicly report on their environmental liabilities, this will be a sufficient incentive for private capital markets to allocate capital toward environmentally sustainable firms and industries.



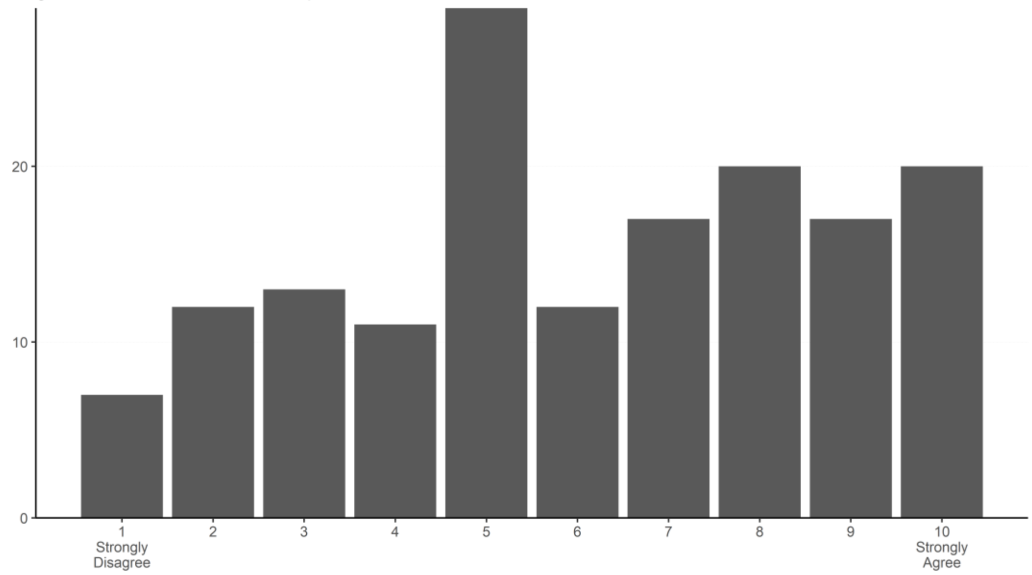
Mean: 5.52 S. Dev: 2.68 N: 157

International cooperation to limit carbon emissions should be one of the top policy priorities for governments in emerging markets.



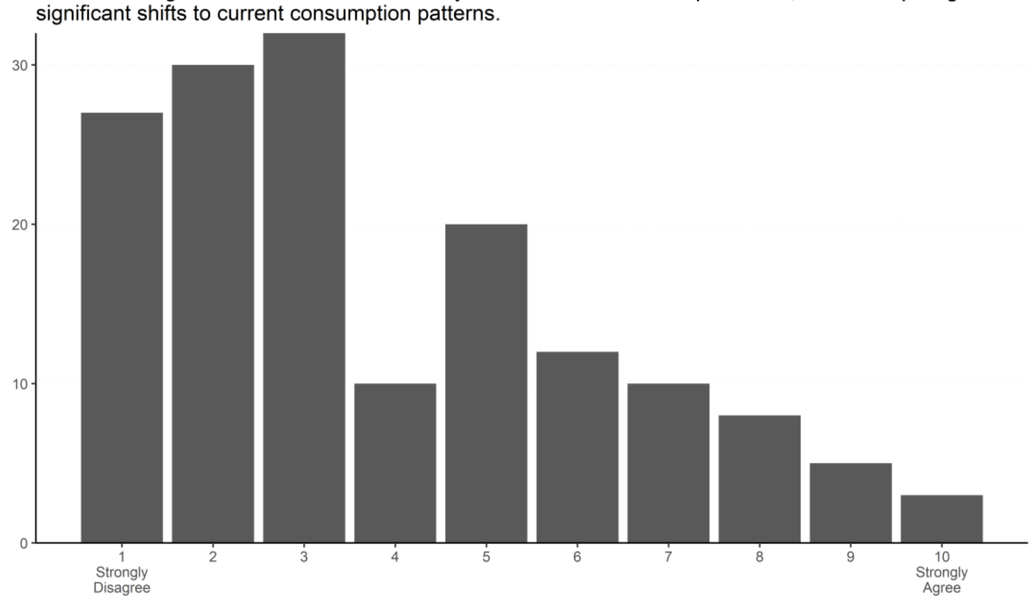
Mean: 7.99 S. Dev: 2.13 N: 158

The management and exploitation of natural resources should be directly controlled by the government, rather than the private sector.



Mean: 6.09 S. Dev: 2.68 N: 158

New technological advances will substantially alleviate environmental pressures, without requiring significant shifts to current consumption patterns.

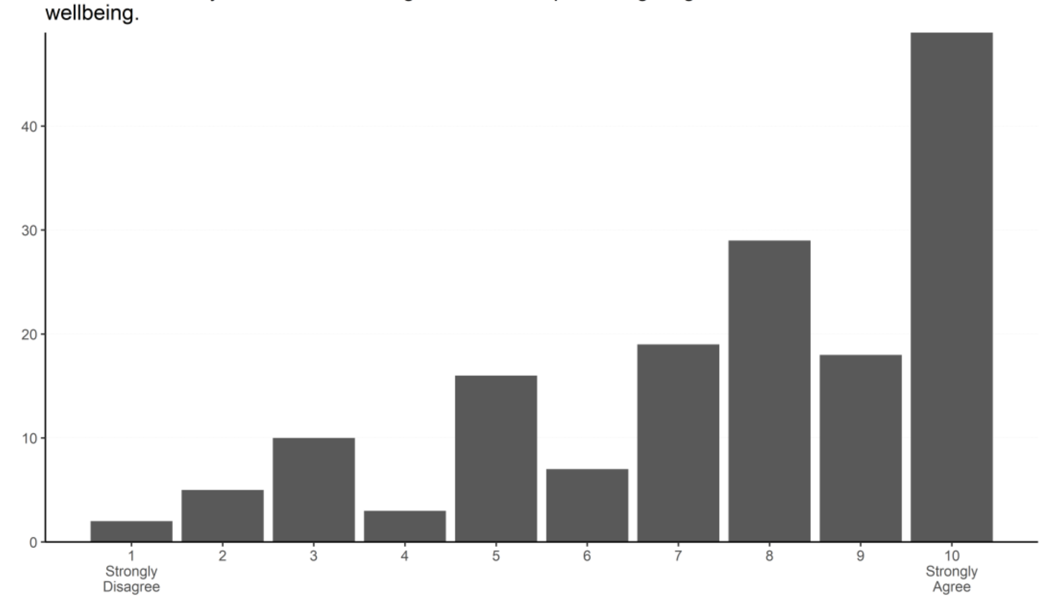


Mean: 3.85 S. Dev: 2.42 N: 157

Power, politics, and governance

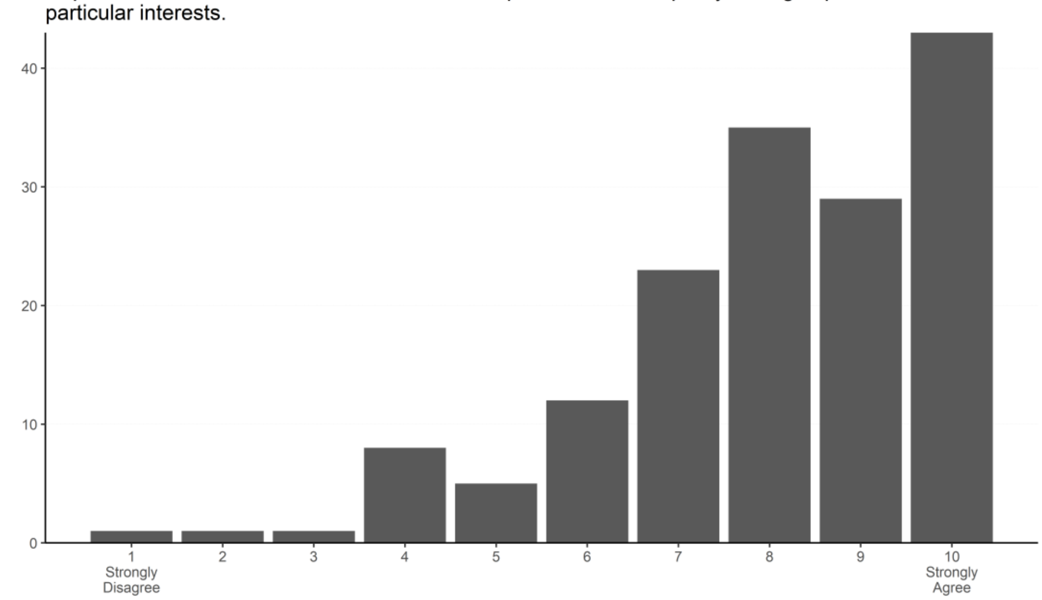
Note: Participants were asked to rate how strongly they agreed with each of the following statements on a scale of 1 to 10, where 1 is ‘Strongly Disagree’ and 10 is ‘Strongly Agree’.

Liberal democracy is the best form of government for promoting long term economic and social wellbeing.



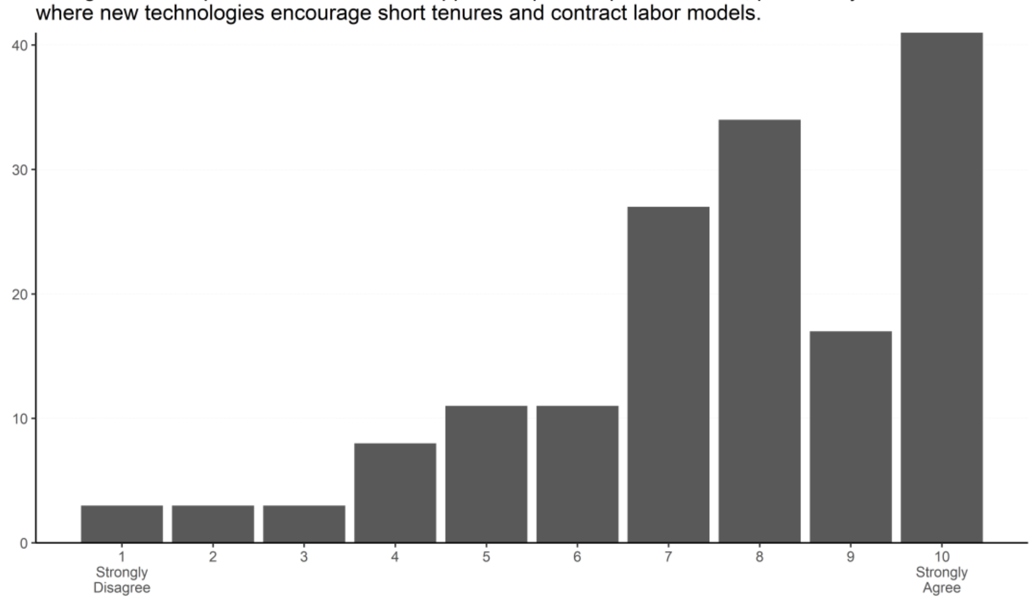
Mean: 7.55 S. Dev: 2.46 N: 158

Capital owners and business executives have captured economic policymaking to promote their particular interests.



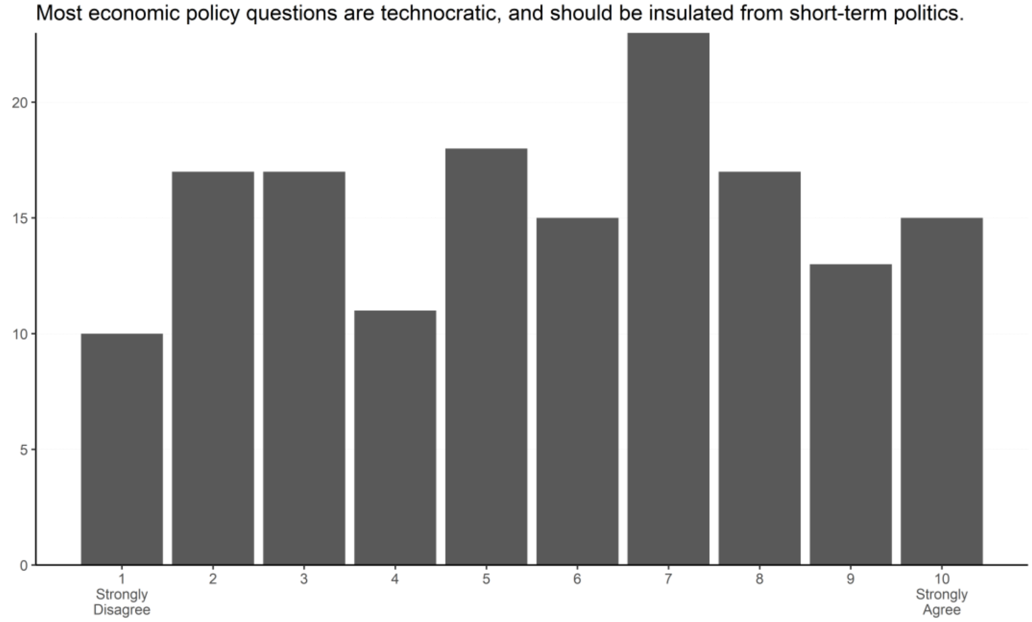
Mean: 8.02 S. Dev: 1.88 N: 158

New government policies are needed to support the political power of labor, particularly in markets where new technologies encourage short tenures and contract labor models.



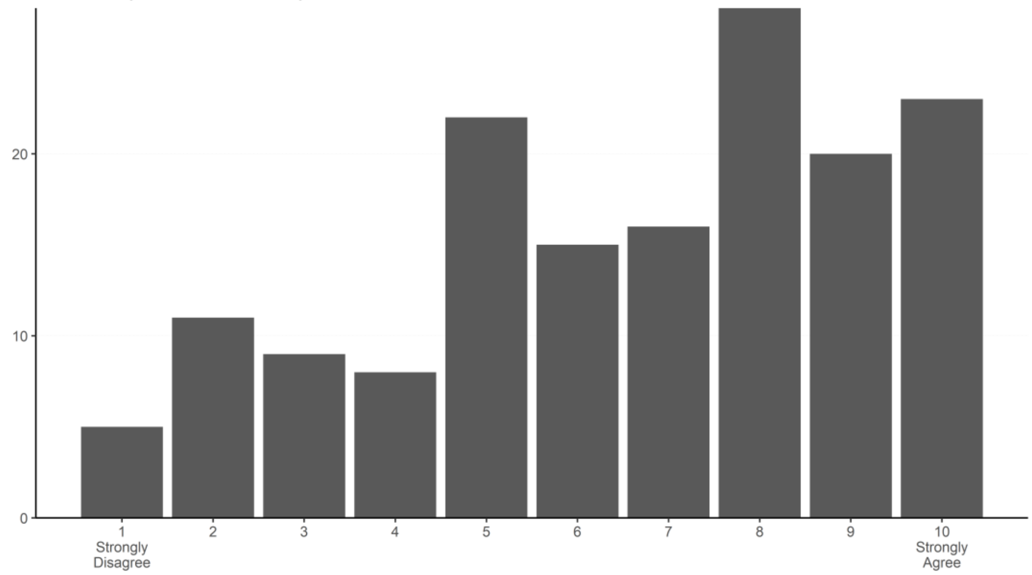
Mean: 7.56   S. Dev: 2.23   N: 158

Most economic policy questions are technocratic, and should be insulated from short-term politics.



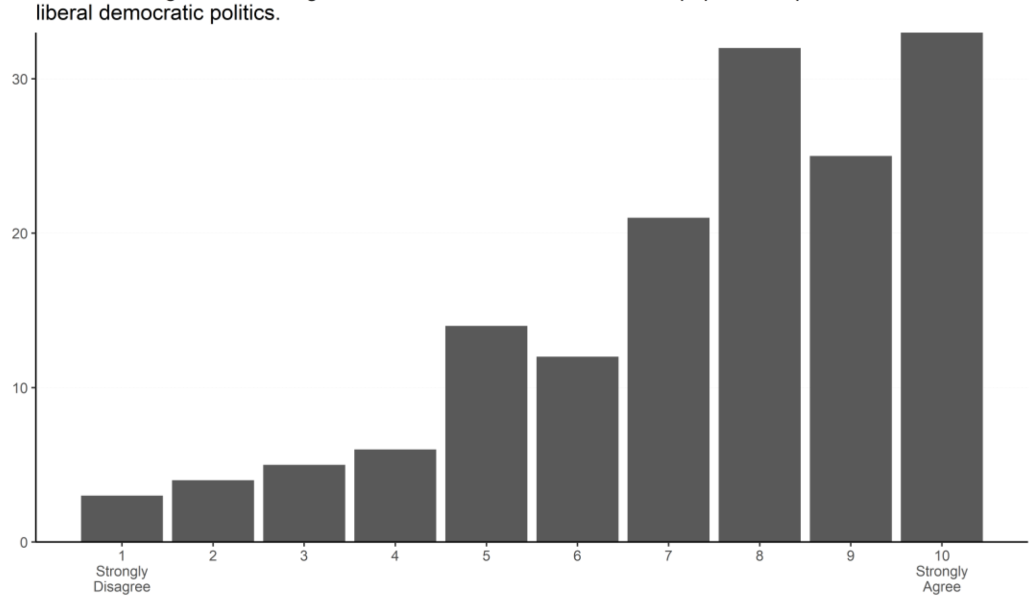
Mean: 5.66   S. Dev: 2.74   N: 156

Political institutions should be designed to minimize the salience of group identities, such as community, tribe, or ethnicity.



Mean: 6.57 S. Dev: 2.61 N: 157

New technologies that allow governments to track and monitor their populations pose a threat to liberal democratic politics.

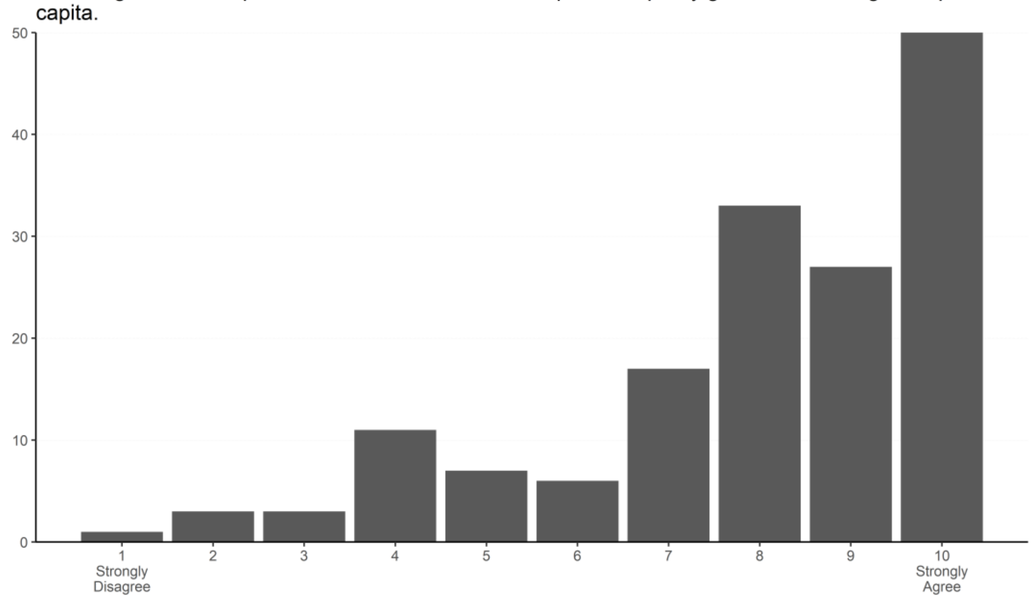


Mean: 7.42 S. Dev: 2.3 N: 155

Taxes, redistribution, and safety nets

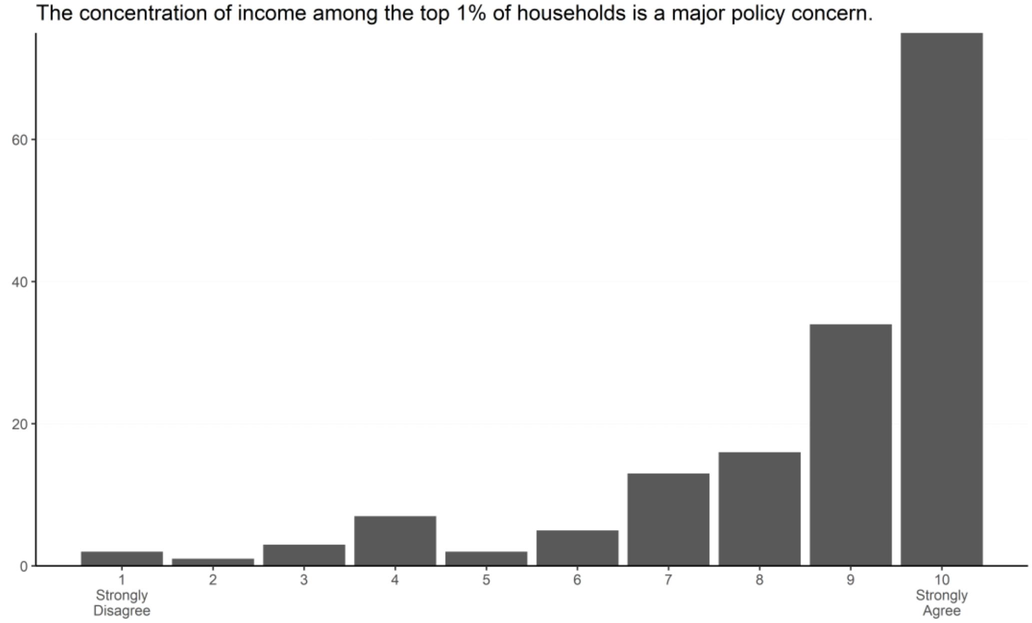
Note: Participants were asked to rate how strongly they agreed with each of the following statements on a scale of 1 to 10, where 1 is 'Strongly Disagree' and 10 is 'Strongly Agree'.

Reducing income inequalities between citizens is as important a policy goal as increasing GDP per capita.



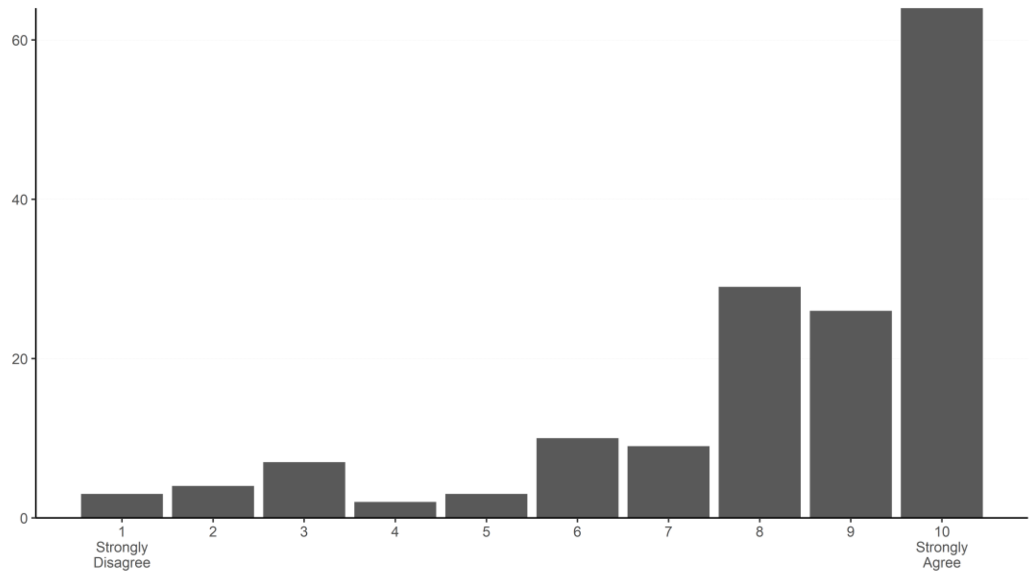
Mean: 7.96 S. Dev: 2.17 N: 158

The concentration of income among the top 1% of households is a major policy concern.



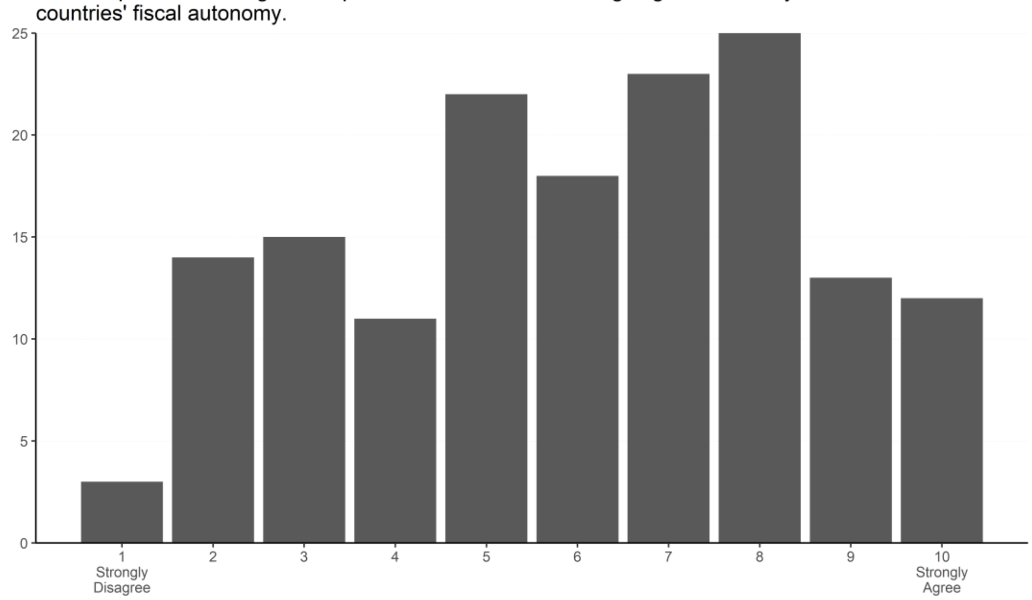
Mean: 8.58 S. Dev: 2.04 N: 158

The state has a responsibility to ensure all citizens' basic needs-including food, shelter, health, and education-are met.



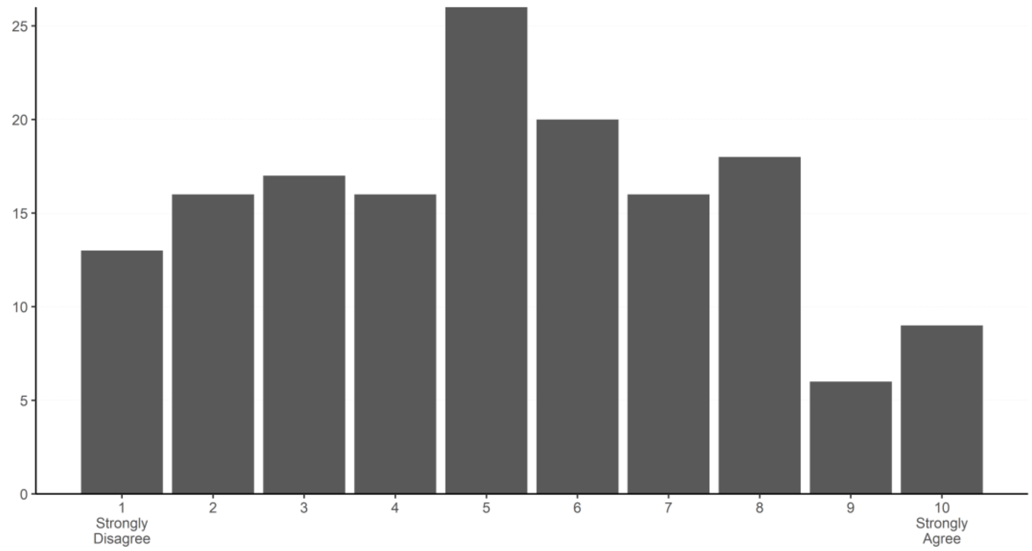
Mean: 8.18 S. Dev: 2.34 N: 157

Investor pressure from global capital markets and credit ratings agencies unduly constrains countries' fiscal autonomy.



Mean: 6 S. Dev: 2.45 N: 156

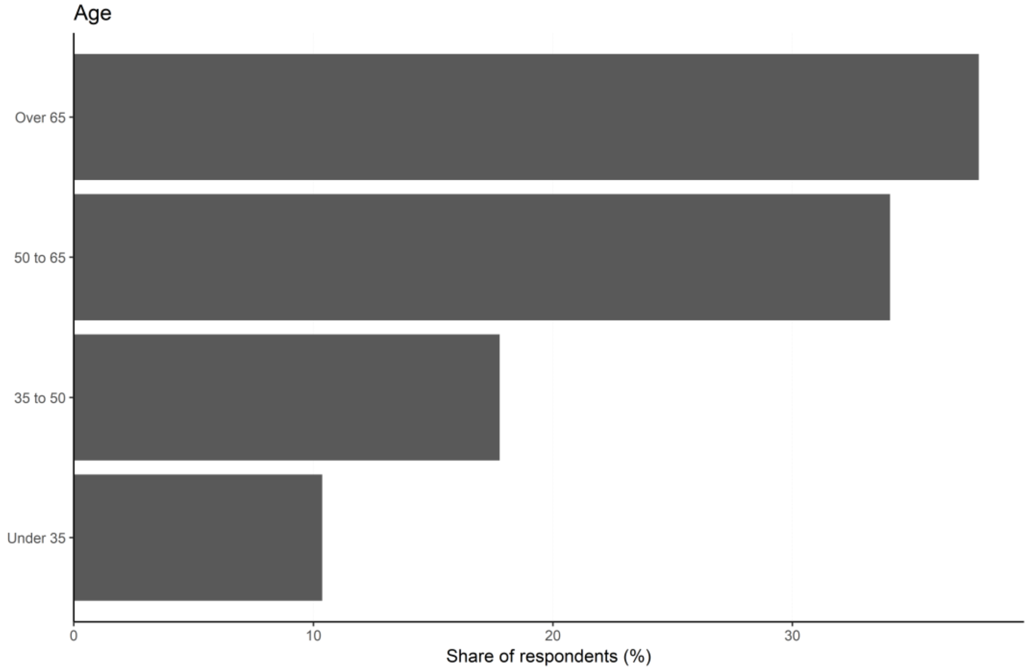
International mobility has decreased the potential intake from capital and labor taxes, and therefore governments should rely more on land, property, and inheritance taxes to fund public services.

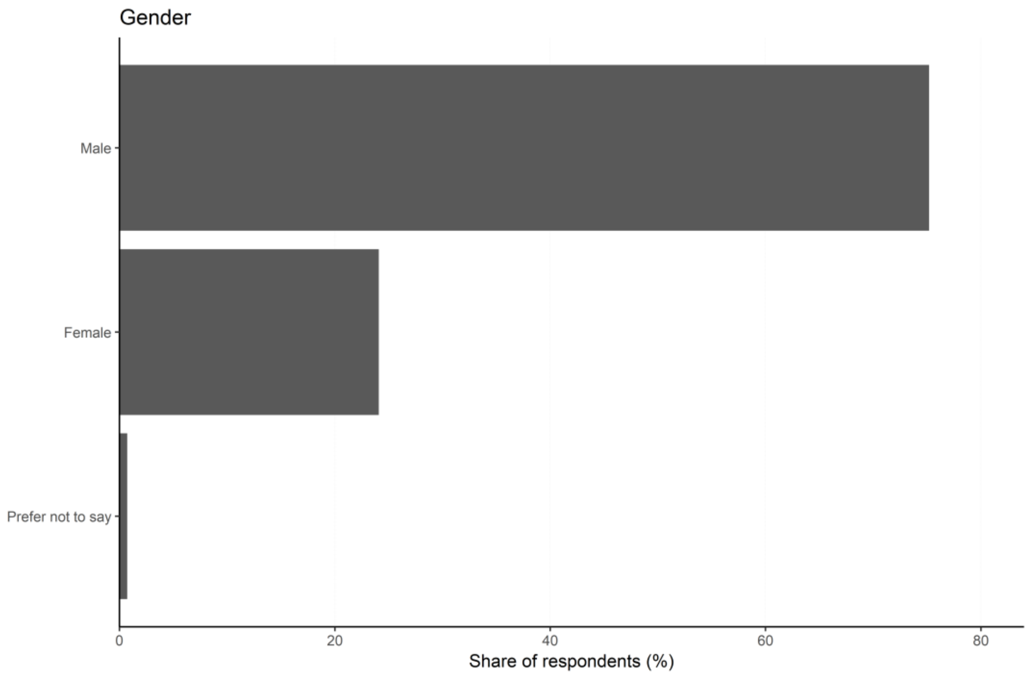


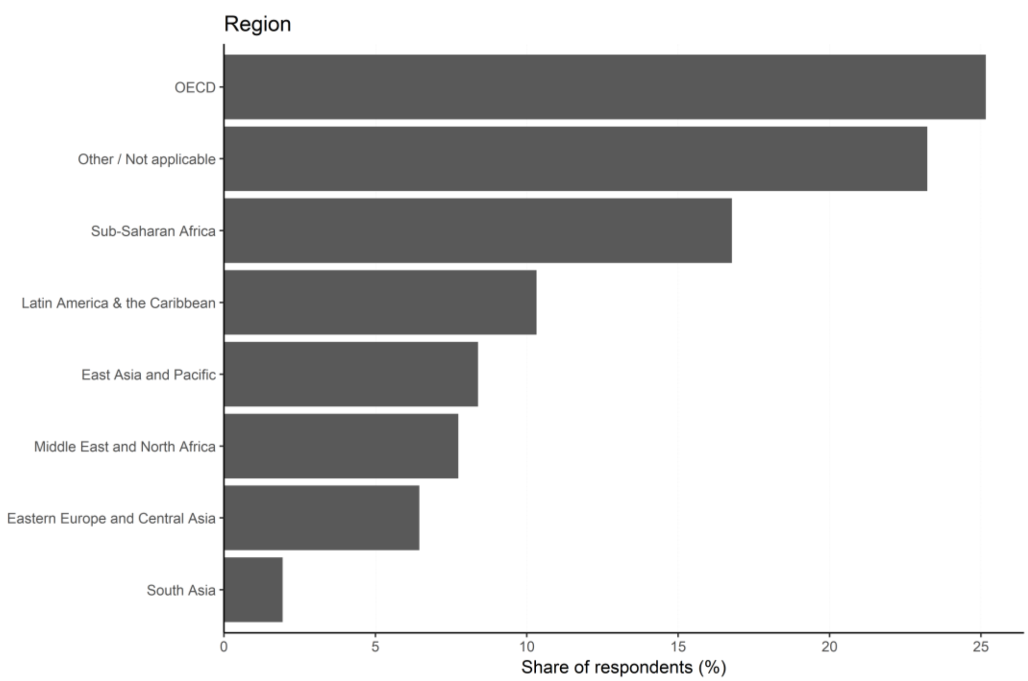
Mean: 5.16 S. Dev: 2.53 N: 157

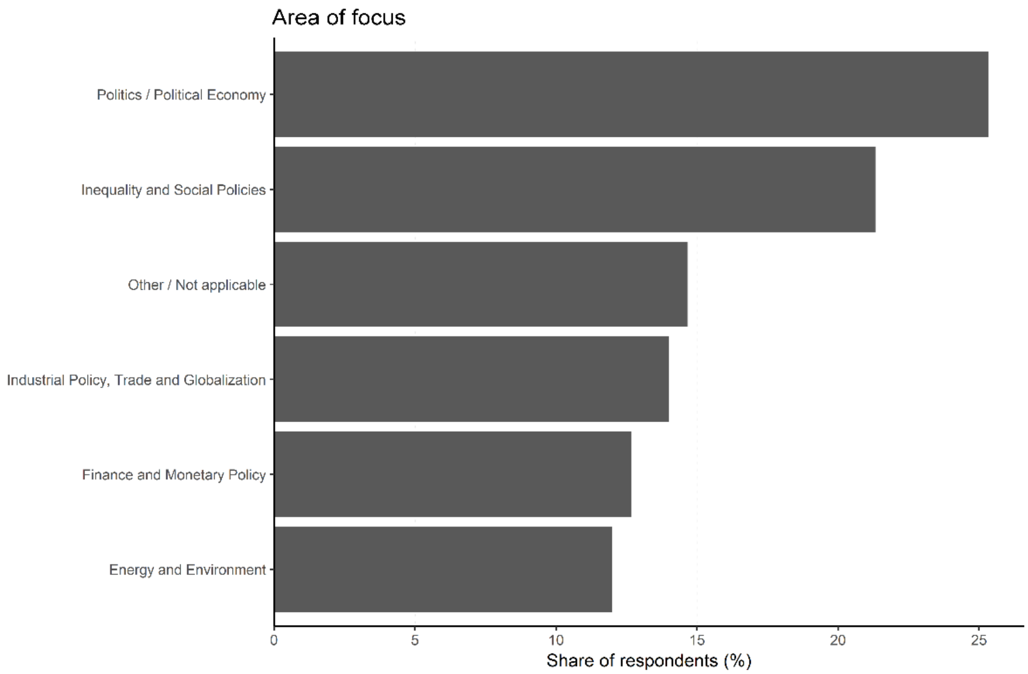
Demographic information

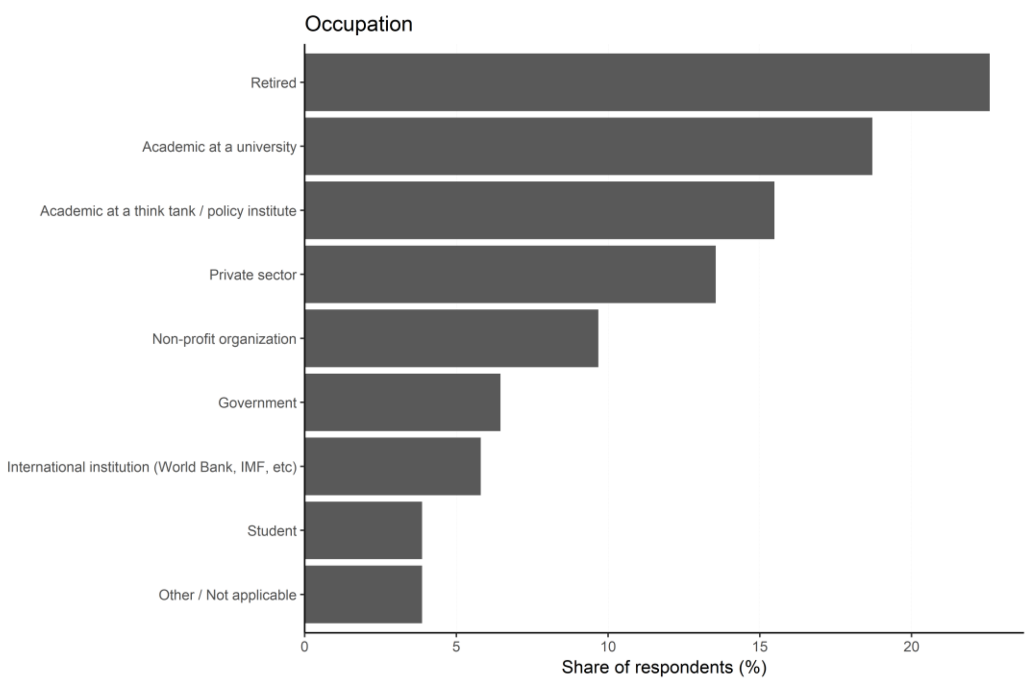
Age




Gender
Male
Female
Prefer not to say
0
20
40
60
80
Share of respondents (%)


Region
OECD
Other / Not applicable
Sub-Saharan Africa
Latin America & the Caribbean
East Asia and Pacific
Middle East and North Africa
Eastern Europe and Central Asia
South Asia
0
5
10
15
20
25
Share of respondents (%)


Area of focus
Politics / Political Economy
Inequality and Social Policies
Other / Not applicable
Industrial Policy, Trade and Globalization
Finance and Monetary Policy
Energy and Environment
0
5
10
15
20
25
Share of respondents (%)


Occupation
Retired
Academic at a university
Academic at a think tank / policy institute
Private sector
Non-profit organization
Government
International institution (World Bank, IMF, etc)
Student
Other / Not applicable
0
5
10
15
20
Share of respondents (%)

[1] Respondents were solicited via email. Our sample consists of members of the Global Development Network (GDN), the Economic Research Forum (ERF), the Think Tank Initiative (TTI), Brookings Global Economy & Development's email distribution list, and participants at the January workshop. Data on the demographics of respondents are included in this appendix.

Appendix B: Conference participants

First Name	Last Name	
Masood	Ahmed	President, Center for Global Development
Manish	Bapna	Executive Vice President And Managing Director, World Resources Institute
Sonny	Bardhan	Senior Director, International Capital, Omidyar Network
Amar	Bhattacharya	Senior Fellow, Brookings Institution
Otaviano	Canuto	Nonresident Senior Fellow, Brookings Institution & Former Executive Director at the World Bank
Mauricio	Cárdenas	Visiting Professor of International and Public Affairs, Columbia University & Distinguished Visiting Fellow, Center for Global Development
Ajay	Chhibber	Chief Economic Advisor, Federation of Indian Chambers of Commerce & Industry & Visiting Scholar, George Washington University
Jennifer	Cohen	Assistant to the Vice President and Director, Brookings Institution
Caroline	Conroy	Senior Research Analyst, Brookings Institution
Brahima	Coulibaly	Senior Fellow and Director of the Africa Growth Initiative, Brookings Institution
Kemal	Derviş	Senior Fellow, Brookings Institution
Raj	Desai	Visiting Fellow, Brookings Institution
Shanta	Devarajan	Senior Director for Development Economics, World Bank
Meagan	Dooley	Research Analyst, Brookings Institution
Ahmed	Galal	Managing Director, Economic Research Forum
Kevin	Gallagher	Professor of Global Development Policy, Boston University
Geoffrey	Gertz	Fellow, Brookings Institution
Carol	Graham	Leo Pasvolsky Senior Fellow, Brookings Institution
Sanjeev	Gupta	Senior Policy Fellow, Center for Global Development
Hassan	Hakimian	Director of the London Middle East Institute, SOAS University of London
Jeff	Hammer	Former Visiting Professor, Princeton University
Nader	Kabbani	Director of Research and Senior Fellow, Brookings Doha Center

Miles	Kahler	Distinguished Professor, American University
Homi	Kharas	Interim Vice President and Director, Global Economy and Development, Brookings Institution
Sushant	Kumar	Senior Manager, Intellectual Capital, Omidyar Network
Danny	Leipziger	Professor and Managing Director of the Growth Dialogue, George Washington University
Santiago	Levy	Vice-President for Sectors and Knowledge, Inter-American Development Bank
Nora	Lustig	Samuel Z. Stone Professor, Tulane & Nonresident Senior Fellow, Brookings Institution
John	McArthur	Senior Fellow, Brookings Institution
Joshua	Meltzer	Senior Fellow, Brookings Institution
Mustapha	Nabli	Independent Consultant and CEO, North Africa Bureau of Economic Studies
Sarah	Pray	Team Manager, Fiscal Governance, Open Society Foundations
Steven	Radelet	Director of the Global Human Development Program, Georgetown University
Ana	Revenga	Senior Fellow, Brookings Institution
Isabel	Sawhill	Senior Fellow, Brookings Institution
Jazmin	Sierra	Assistant Professor, University of Notre Dame
Katherine	Sierra	Nonresident Senior Fellow, Brookings Institution
Stephen C.	Smith	Professor of Economics and International Affairs, George Washington University
Sebastián	Strauss	Research Analyst, Brookings Institution
Teresa	Ter-Minassian	Former Director of the Department of Fiscal Affairs, International Monetary Fund
Lily	Tsai	Associate Professor and Director, MIT GOV/LAB, MIT
Todd	Tucker	Fellow, Roosevelt Institute
Nicolas	Véron	Senior Fellow, Peterson Institute for International Economics
Tracy	Williams	Director, International Capital, Omidyar Network
Tarik	Yousef	Director and Senior Fellow, Brookings Doha Center
Shahid	Yusuf	Chief Economist of The Growth Dialogue, George Washington University

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