

Tim Besley

Irene Bucelli

Andrés Velasco

October 16th, 2025

## A new consensus? Economic principles for the 21st century

*Published in 1990, John Williamson's Washington Consensus set out a "free-market" economic paradigm that has shaped our economies and societies. 35 years later, is another set of economic principles emerging? The London Consensus brings together 50 world-leading economists and policy experts to consider this question. Its editors, LSE's Tim Besley, Irene Bucelli and Andrés Velasco spoke to LSE Review of Books Managing Editor Anna D'Alton.*

***The London Consensus: Economic Principles for the 21st Century. Irene Bucelli, Tim Besley and Andrés Velasco (editors). LSE Press. 2025.***

---

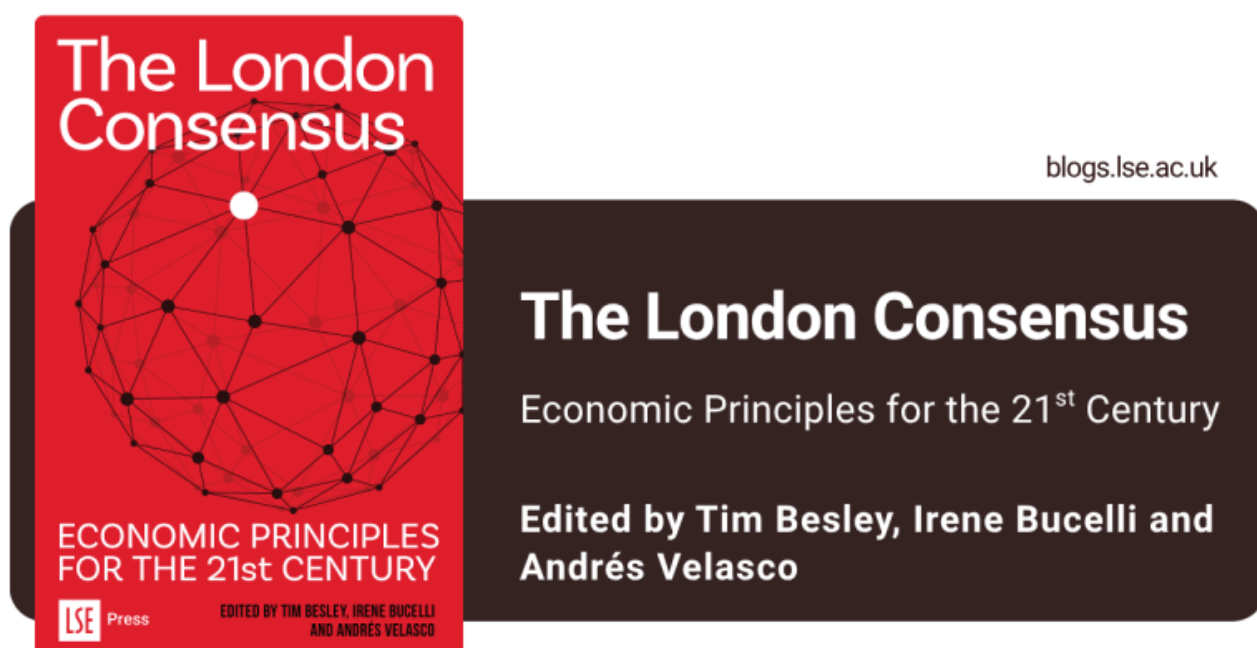
## Where did the idea for "The London Consensus", both the conference held at LSE in 2023 and the resulting book, come from?

Andrés Velasco (AV): If you do what we do, which is to give papers around the world and talk to people who are interested in policy, one question keeps coming up: what are general principles that can discipline our thinking about policy in this very challenging and chaotic world? We decided to **convene expert economists** to attempt to answer that question – **nearly 50 authors and discussants** organised around 15 topics. We asked them: in your subfield, what we have learned since 1990, which is the date of publication of the Washington Consensus (WC)? And of the policy prescriptions set out in the WC, what needs to be maintained, and what is no good and should be discarded?

## In the WC, John Williamson brought together ten "free-market" economic principles under one

## umbrella, and these have undeniably been influential. But it also had its critics. What are the key criticisms associated with it, in terms of inequality or other consequences for particular countries?

Tim Besley (TB): The WC gave support to the idea that deregulation and privatisation could contribute to a more effective market economy and the position on this has somewhat shifted now. But there are elements of the WC that have stood the test of time, like the need for a stable background of monetary and fiscal policy.



I think that the fractures we see in society now do have something to do with inequality, but it's a much more complex picture. When people have lose their livelihoods because of globalisation, there are inequality consequences, but it is much more than this, your sense of identity can feel threatened too when you can no longer work in a car factory or mine and instead have to become a retail worker. There is now a keener appreciation of the social and political consequences of the prescriptions of the WC.

AV: The Washington Consensus had very little to say about inequality, and inequality is certainly important, but I would not hang the world's problems on that hook alone. Nor on economic outcomes only. Take Poland, for instance, In a recent *Financial Times* article, Simon Kuper points out that Poland is, by any economic or wellbeing measure, much better off than ever before. Nonetheless, it is an embittered country, deeply divided between the right and the left, the city and the countryside, the liberals and the populists. So, it's not all economic performance, and it's not all inequality.



*Much of the political economy literature has focused on the link between democracy and growth. But the case for democratic institutions is based on much more than their economic consequences.*



**Irene Bucelli (IB):** I think some of the pushback against the WC centred on its prescriptive nature, these ten precepts that would be imposed on everybody. Our book aims to move forward in a more productive way, identifying principles that are generally applicable, and leaving it up to citizens and nations to decide on the specific policies that can provide solutions to the problems they face.

**Tim, in your chapter (co-authored with Torsten Persson) on liberal political economy, what types of institutions do you conclude are good for growth and stability?**

**TB:** Much of the political economy literature has focused on the link between democracy and growth. But the case for democratic institutions is based on much more than their economic consequences such as personal freedom and a political system that is responsive to the concerns of citizens. We wanted to write a piece that didn't just say that whether growth is higher or lower is the right assessment of whether democracy has succeeded or failed.

We looked at what might be regarded as “effective states”, those that have the capacity to tax and spend wisely or establish the rule of law. And we argue (in this chapter and, particularly our book – *Pillars of Prosperity* (2011) – that a key determinant of whether governments invest in such things affected by the extent to which there are serious institutional and norm-based constraints on executive power. These ensure that power is used responsibly and can also foster a sense of common interests. Elections matter too, but if you elect an autocrat – in effect, someone who's unconstrained – the elections don't count for much. That allows us to make a case for liberal political institutions without wagging the finger at certain countries that have grown very effectively at pace, like China. The extent to which that growth has delivered higher living standards for the Chinese population, that's wonderful. But I wouldn't say it's a full-service delivery, because people don't have many more political rights than they had when it all started. If you value political rights,

then that will temper your view of what constitutes a successful economy and society. So our ideas are embedded in the western liberal political tradition.

**Thinking of some of the ways we've moved away from the WC, which advocated trade liberalisation, and now we are seeing increased protectionism, notably with Trump and his tariffs. Is that an inevitable response to liberalisation? What conditions do you think have driven protectionism?**

TB: It's not inevitable, but we have seen that backlash, with the US being a prime example. Certain types of fractures occurred, both because of more openness to trade and because of new technologies. Could they have been foreseen, and could they be managed better in the future, given the lessons of the past? These are two big questions.



*While trade may create inequality, by some measures, in rich countries, it probably has been equalising in poor countries, and that's something that gets lost in the North Atlantic debate.*



AV: I agree, but I would add one important caveat. That debate is, basically, relevant for the United States and parts of Western Europe. People in China, India, Brazil or South Africa don't want close down their economies. There's a paradox here, because people who want to close down the economy in the West, on both the right and the left, often claim it will help the poor. But relatively poor citizens in developing countries don't necessarily agree. Economists have a good explanation for that. In a labour-abundant country that sells labour-intensive goods, trade will make people who are relatively poor better off. So, while trade may create inequality, by some measures, in rich countries, it probably has been equalising in poor countries, and that's something that gets lost in the North Atlantic debate.

## Andrés, turning to your chapter on fiscal policy and public debt written with Ricardo Reis, in the past 20 years, we've had the global financial crisis and the COVID-19 pandemic. What are the lessons that we can take out of those crises, particularly around borrowing?

AV: There are areas where the WC got it right and areas where it fell short. The conference that led to the WC book was held in 1989 in Washington. The 1980s were known as the decade of the Debt Crisis, with financial crises in many emerging economies, including Mexico, Venezuela, Brazil, Argentina, Uruguay, and Chile. These in turn affected the big American banks. The obvious lesson that Williamson and others took away from it was, if run big fiscal deficits year in, year out, it will cause too much debt accumulation. Eventually banks and markets won't lend to you anymore, so you resort to printing money to finance the deficit, causing inflation, and perhaps hyperinflation. That's a very bad idea. That lesson still holds, not only for developing countries or middle-income countries. As the UK learned painfully with the mini-budget episode of three years ago, it also applies to rich countries. That's exactly the debate we're having in the UK today: is debt growing too quickly? Should taxes go up or spending go down? And so on.



*What we learned in the 2007-9 financial crisis and the pandemic is that there's a role for fiscal policy as an "insurer of last resort". When financial markets freeze and insurance markets either don't exist or simply cease to operate [...] the government can step in*



However, the WC had very little to say about other kinds of uses of fiscal policy. What we learned in the 2007-9 financial crisis and the pandemic is that there's a role for fiscal policy as an "insurer of last resort". When financial markets freeze and insurance markets either don't exist or simply cease to operate, there's nobody to help a company that cannot borrow and must fire all its employees, or a pensioner who cannot pay his energy bills. The government can step in to provide insurance for

people who need it, and also to keep the economy going. Crucially, to do that governments need to be able to borrow in bad times, which in turn requires being fiscally cautious and reducing debt in good times.

## Why do you think it's useful to try to identify a consensus, and what points of consensus did you see emerge? To take the climate crisis, do you think that's something that can help align different countries?

TB: There have been events that we thought would be defining moments. I remember the narrative around the financial crisis, and with COVID: When we come out of this, we're going to behave differently. That hasn't panned out. People have made similar claims about the climate crisis, but right now it's even a source of increasing polarisation in many countries.

The optimistic view is to try and reach some principled agreement on the kind of economy and society we want to build where everyone feels valued and has dignity at work. If we can reach a consensus on the objectives, a strategy to deliver on them should, hopefully, follow. It won't mean we all agree on the policies that support that, but we would know where we want to head. Moreover, it is essential that such policies are chosen by those who are affected by them.

AV: One thought, complementary to that: if you agree on the principles, policies will vary because circumstances vary. In a country where debt is 25 per cent of GDP, sound policies will be different than in one where debt is 200 per cent of GDP. I don't think there can or should be 10 new commandments like those Williamson produced 35 years ago. But in the book, we identify a few key areas of principled agreement.



*Thirty-five years ago, the prescription was: if there were no jobs in one place, you could always move to the next state, or the next country. I don't think many economists would say that anymore. We understand much better the risk of having left-behind regions*



One thing that's changed since Williamson's time is the growing importance of place-based policies. What matters is not just what we produce, but where you produce it, and how. Thirty-five years ago, the prescription was: if there were no jobs in one place, you could always move to the next state, or the next country. I don't think many economists would say that anymore. We understand much better the risk of having **left-behind regions**, in which skilled workers leave, businesses leave, and joblessness and all kinds of social ills follow.

Another point of broad agreement is that if we mismanage fiscal and monetary policies, we are sure to get into trouble. Yet another is that openness to trade and finance is desirable, but it needs to be managed, particularly when it comes to finance. Now, the required management is quite subtle, and requires qualified professionals and good institutions.



*The idea of the London Consensus gathering was to ask, what is the narrative around which ideas can coalesce, even if that new approach still seems somewhat murky?*



**IB:** Over the past 100 years, we had one paradigm (Keynesian economics) followed by a second (the WC), and now we are in an era of "no paradigm". The idea of the London Consensus gathering was to ask, what is the narrative around which ideas can coalesce, even if that new approach still seems somewhat murky? We involved a range of economists and policy experts in this enquiry. We didn't just ask one person to write a chapter, end of story. Instead, we invited several discussants for each chapter to show the type of consensus that can emerge when we start discussing general economic principles, even if you disagree on some of the evidence or the detailed implications of those principles.

---

*The London Consensus is published Open Access by LSE Press.*

**Note:** This interview gives the views of the persons interviewed and the interviewer, not the position of the LSE Review of Books blog, nor of the London School of Economics and Political Science.

**Image:** *Aedrian Salazar on Unsplash.*

*Enjoyed this post? **Subscribe** to our newsletter for a round-up of the latest reviews sent straight to your inbox every other Tuesday.*

---

## About the author

### Tim Besley

Professor Sir Tim Besley is School Professor of Economics and Political Science and W. Arthur Lewis Professor of Development Economics in the Department of Economics at LSE. He is also a member of the National Infrastructure Commission. He is a Fellow of the Econometric Society and British Academy and a Foreign Honorary Member of the American Economic Association and the American Academy of Arts and Sciences. His main research interests are in political economy and development.

### Irene Bucelli

Irene Bucelli is the Programme Coordinator of the Beveridge 2.0 Redefining the Social Contract and the managing editor of the LSE Public Policy Review at the School of Public Policy. She is also a Research Officer at the School of Social Policy and the Centre for Analysis for Social Exclusion (LSE). Her research focuses on multidimensional inequality, poverty and deprivation.

### Andrés Velasco

Andrés Velasco is Professor of Public Policy and Dean of the School of Public Policy at the London School of Economics. He held earlier professorial roles at the Harvard Kennedy School, Columbia University and New York University. He served as the Minister of Finance of Chile between 2006 and 2010. In 2017-18 he was a member of the G20 Eminent Persons Group on Global Financial Governance. He holds a B.A. and an MA from Yale University and a PhD in economics from Columbia University.

**Posted In:** Author Interviews | Contributions from LSE Staff and Students | Economics | LSE Book | LSE Event | LSE Festivals | Politics



© LSE 2025