The IMF is Starting to Think that 'Neoliberalism' has Created an Inequality Problem
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Some of the most senior economists within the International Monetary Fund — often dubbed the "central bank's central bank" — are beginning to question parts of the neoliberal consensus that has dominated economic thinking for the past three decades.

In an article published by the fund this week, economists Jonathan Ostry, Prakash Loungani, and Davide Furceri argue that they see a growing movement against some of the principles of neoliberalism, and believe that two key areas of neoliberalism — namely the free movement of capital across borders, and the enforcement of austerity measures by global governments — are starting to hinder, rather than help the world.

Here's an extract from the article (emphasis ours):

> *There is much to cheer in the neoliberal agenda. The expansion of global trade has rescued millions from abject poverty. Foreign direct investment has often been a way to transfer technology and know-how to developing economies. Privatization of state-owned enterprises has in many instances led to more efficient provision of services and lowered the fiscal burden on governments.-*
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> *However,* ***there are aspects of the neoliberal agenda [austerity and capital liberalization] that have not delivered as expected.***

The post goes on to say that: "An assessment of these specific policies (rather than the broad neoliberal agenda) reaches three disquieting conclusions." Ostry, Loungani, and Furceri's "disquieting conclusions" are as follows:

1. *It is pretty hard to actually establish, "when looking at a broad group of countries" whether neoliberal policies have actually helped growth.*
2. *The increase in inequality is "prominent".*
3. *Increased inequality caused by specific parts of neoliberalism "hurts the level and sustainability of growth."*

Here's more from the report (emphasis ours):

> *Since both openness and austerity are associated with increasing income inequality, this distributional effect sets up an adverse feedback loop. The increase in inequality engendered by financial* ***openness and austerity might itself undercut growth, the very thing that the neoliberal agenda is intent on boosting****. There is now strong evidence that inequality can significantly lower both the level and the durability of growth.*
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> *The evidence of the economic damage from inequality suggests that policymakers should be more open to redistribution than they are. Of course, apart from redistribution, policies could be designed to mitigate some of the impacts in advance—for instance, through increased spending on education and training, which expands equality of opportunity (so-called predistribution policies). And fiscal consolidation strategies—when they are needed—could be designed to minimize the adverse impact on low-income groups.*

Since the late 1980s and the so-called Washington Consensus, neoliberalism — essentially the idea that free trade, open markets, privatization, deregulation, and reductions in government spending designed to increase the role of the private sector are the best ways to boost growth — has predominated in the thinking of the world's biggest economies and international organizations like the IMF, and the World Bank. However since the 2008 financial crisis, there has been a groundswell of opinion in both economic and political circles to suggest that the neoliberal consensus is the right way forward for the world.

As one of the report's authors, Ostry, put it in an interview with the Financial Times after the article's publication: "There are a lot of people thinking the same thing at this point, that basically some aspects of the neoliberal agenda probably need a rethink," adding "The crisis said: 'The way we've been thinking can't be right'."

Clearly, one article by three economists inside the IMF doesn't suggest that the fund is about to totally shun neoliberalism and abandon its commitment to the Washington Consensus — in fact, earlier this week, deputy managing director David Lipton gave a speech defending the values of globalization, and calling protectionism "self-defeating." It does, however, throw up an interesting insight into divisions developing within the IMF about the future of global economics.

In his FT interview, Ostry added that even being allowed to put the article in an official IMF publication showed how much things are starting to move away from the orthodoxy in terms of economic thinking. The post definitely doesn't represent the "mainstream culture" of the IMF he said, adding that "cultures are slow moving things."