

35 years of the “Washington Consensus”: the context of today’s environment as a need for a new “consensual” paradigm

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Abstract

The paper aims to critically examine the basic principles underlying the reforms that guided the economic transition to a market economy in the early 1990s. Conceived as a recipe for economic policy reforms that are often labeled as liberal or ultra-liberal, their focus was in fact on establishing economic discipline over public finances and controlling inflation. Imported from the reform agenda required of Latin American countries at the end of the “lost decade” of the 1980s, the “Washington Consensus” menu was enriched for the former communist countries with additional recipes related to the realization of one of the most profound structural transformations that had ever occurred in the modern history of the economy. As such, the reforms that became known as the “Washington Consensus” responded to a specific historical context and aimed to realize both these structural changes in ownership, but also to establish macroeconomic stabilization, controlling public debt and inflation, in particular. These in fact remain serious challenges even in today’s global

macroeconomic context, except that this time these imbalances have affected the developed economies themselves, known as the “global north”, imbalances which stand at threatening levels. The result of these reforms was unprecedented economic growth on a global scale driven by the deepening of the globalization process and the construction of a global value chain by minimizing production costs, a massive reduction in poverty and consequently an increase in social well-being, as measured by many indicators. But one of their unintended results is the strong social changes dominated by a decline in the middle class of society and the growth of two extreme poles: the rich and the poor. Social polarization is an evident reality in most societies. This process has also affected Albanian society where income inequality has been deepening. The developments of the 21st century have clearly created a new and more complex context, adding new elements to the political, economic and social ecosystem. The growth of populism and political polarization is causing the liberal world order to suffer serious cracks. Climate change, pandemics, the fragmentation of world markets and the threat of access to economic resources, especially rare minerals, strategic rivalry for technological superiority, etc., require a new institutional framework to address them. In the socio-economic plan, technological and demographic changes are radically transforming the operation of markets, in particular labor markets. Society seems to be atomizing, and, in the absence of social protection structures, social cohesion is at risk. It is very evident that a third pillar, society, needs to be added to the discussion of whether the solution should be found in the state or the market, a debate that stems from the agenda of the “Washington Consensus”.

The fundamental question we pose in this paper is: how did the principles of the “Washington Consensus” function and to what extent did they achieve their original goals? What is the current economic and social context and what could be some new principles that could be embodied in a new consensual development doctrine? The main reference will be the relationship with the Albanian economy and society, but also placed in a broader framework of global developments.

Keywords: *Economic transition; Market economy; Economic reform; Washington Consensus; Social ecosystem*

The context of the “Washington Consensus”

The development policies of developing countries after World War II had produced two clearly different patterns. A group of countries, mainly from far Asia, known as the “Asian tigers” (Singapore, Taiwan, South Korea, Hong Kong), managed to overcome the status of developing country within a period of almost three decades. Another group represented by non-communist countries (Latin America, India, Turkey, etc.) had been stuck in the status of developing countries, producing debt and currency crises.

This development policy was conceived by countries in stages. At their inception, all developing countries had followed policies of industrialization through import substitution, developing domestic industries through protectionist measures against the competition of foreign goods. While in the second phase, the countries followed different models: Asian countries moved towards policies of orienting these industries for export, while other countries continued to expand import substitution policies in other heavy industries, such as the petrochemical industry, shipbuilding, etc. As part of the development instruments, the monetary policy of fixed exchange rates was also used. Consequently, the elimination of the risk of currency devaluations, accompanied by higher rates of profit in these countries, stimulated a large export of foreign capital mainly to Latin American countries. When the US economy faced the high levels of inflation of the 1970s and early 1980s and the Federal Reserve raised interest rates sharply, this further worsened the balance of payments situation of Latin American countries, significantly increasing their external debt burden. As a result, they were all failing to repay their accumulated debts to American banks, which forced the US government to draw up a plan to rescue the Latin American economy. The fixed exchange rate policy had failed, and in the meantime, the wealth that had been created over the years was undone by the debt crisis and the long economic recession which followed.

It is against this historical backdrop of economic developments that researchers asked what policies Latin American countries should follow to stabilize their economies and create an economic model that guaranteed sustainable growth. Attention was focused on extracting those policies that had been successful in the experiences of Asian countries and that could be replicated by other developing countries. The topic of why some countries grow faster and others slower is one of the challenging issues in economics.

A group of economists gathered in Washington, under the leadership of Prof. Williamson, listed a package of 10 policies that could be recommended to Latin American countries, which will be known in the history of economics as the “Washington Consensus”. Since the communist system fell in the late 1980s, this package of policies was considered appropriate for economies that would enter the long political and economic transition, as a “road *map*” towards a market economy. Albania also chose to base its transition policies according to this policy recipe.

Were the recommendations of the “Washington Consensus” appropriate for economic growth?

Beyond the ideological debates about the role played by the policies of the “Washington Consensus”, the professional debate among economists has been of an empirical nature. What was the cause of economic growth: the policies promoted by the “Washington Consensus” (Fischer, 1993, Sachs and Warner, 1995,

Williamson, 1993), or the abundance of factors and high investment rates (Sala-i-Martin, 1997; Levine and Renelt, 1992).

An IMF study (1997) with data on 76 developing countries covering the period 1985-1995, examined three “Washington Consensus” policies that create a healthy environment for resource allocation and promote investment:

- Economic/trade openness;
- Consolidated macroeconomic environment (measured by the variance of the inflation rate);
- Government size (government spending/GDP)

Using regression models and a framework of probabilistic outcome analysis, that is, how a policy affects the probability that a country will experience higher, moderate, or lower growth, the authors conclude that all three policies have a positive impact. The study also confirms the findings of Sala-i-Martin and Levine and Renelt, but does not see human capital and the savings/investment ratio as the final cause but as the starting point. Also, an important finding is that policy combinations are essential to change the trajectory of economic growth; taken individually, none of the policies is statistically significant in explaining growth, but their complementarity significantly improves the chances of growth.

Let’s briefly analyze the recommendations of the “Washington Consensus” and answer the question of whether they were appropriate for developing countries to follow?

Recommendation 1: Public deficits large enough to not create inflationary pressures. The paradigm of maintaining deficits at sustainable levels remains a fundamental macroeconomic assumption today. The fact that high levels of budget deficits are a cause of inflationary pressures in the long term is clearly documented in many empirical analyses (see, for example, TJ Sargent and N. Wallace (1981). EM Leeper (1991), CA Sims (2014), M. Taghavi (2000), R. Castro, C. Resende and FJ Ruge-Murcia (2003), CM Reinhart and KS Rogoff (2010), J. Lopes da Veiga, A. Ferreira-Lopes and T. Sequeira (2016) (for African countries), etc. The recent inflationary crisis of the 1970s-80s clearly showed that Philip’s curve in the long run is vertical and attempts to stimulate economic growth through fiscal and monetary stimuli only produce inflation without being able to stabilize employment.

This issue in Albania has been pursued in the form of a debate about why a hard budget constraint was applied *to* former state-owned enterprises, which, if supported by the budget and restructured, could have been privatized later while maintaining employment and production.

From the analysis of statistical data, it results that starting from the second half of the 1980s, the state budget had created deficits that were increasing. At the end

of 1990, the fiscal deficit was estimated at 16.6% of GDP (IMF, 1992). To balance the budget, the government had withdrawn state reserves and had reduced the deposits of state enterprises. At the end of June 1991, the level of foreign exchange reserves had fallen to 15 million dollars, less than two weeks of imports of goods. On the other hand, the external debt had also reached 497.4 million dollars at the end of 1990, a figure equal to 30% of GDP. (IMF, 1992).

In this state of public finances and external debt, not only theoretically but also practically, the country found it impossible to play an active role in rescuing the manufacturing sector, which was overinvested, with very backward technology and without the logic of market competition that had been followed during the years of socialism.

The lesson from the EU debt crisis, especially the case of Greece, showed that the creation of excessive debt creates a dynamic of its instability and eventually leads to a deep debt crisis, then accompanied by a negative spiral of prices, interest rates and all parameters of the real sector of the economy.

In short, fiscal discipline remains an essential requirement of healthy policies for economic growth today.

Recommendation 2: Reorienting spending towards neglected sectors that have a higher rate of return on investment, such as education, health and infrastructure, with a high impact on redistribution. The idea was that the limited financial resources of the budget would not go to support the economic activity of state-owned enterprises, but to the production of public goods.

The articulation of this recommendation was a reflection on the practices of countries that had followed import substitution policies, which had massively invested budget money in the creation of state-owned enterprises or financing private enterprises in industries producing private goods. Essentially, the same practice had been followed in socialist economies, only that here it was implemented in its most extreme form. It was precisely this policy that had led to the accumulation of debts at levels that exceeded the real borrowing capabilities of these countries, becoming the cause of the debt crisis, as discussed above.

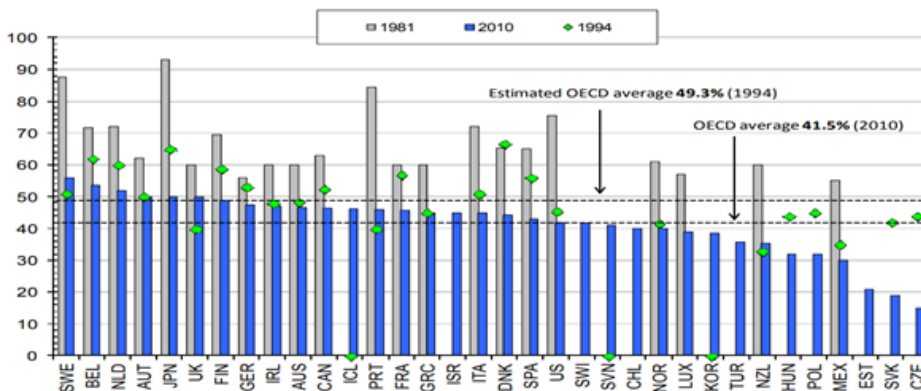
The idea that public funds should be directed towards projects that have the greatest effects on economic growth and poverty alleviation remains a valid paradigm for public finances.

Recommendation 3: Tax reform: broadening the tax base by reducing their high marginal rates. The critical issue was how to increase budget revenues, given the high need for public investment, while on the other hand, foreign trade reforms with the reduction of customs tariffs led to a decline in revenues.

Tax reform began in developed countries as early as 1980s with a sharp decline in the high marginal rate of both personal income tax and corporate tax (Brys,

2011). The following two graphs illustrate the downward trends over the years in marginal tax rates in both these categories. The downward trend in statutory tax rates is also evident in dividends (from 49% in 2000, to 41% in 2011), while the VAT tax rate, being a regressive tax, has increased slightly (from 16.7% in 1990, to 17.8% in 2000).

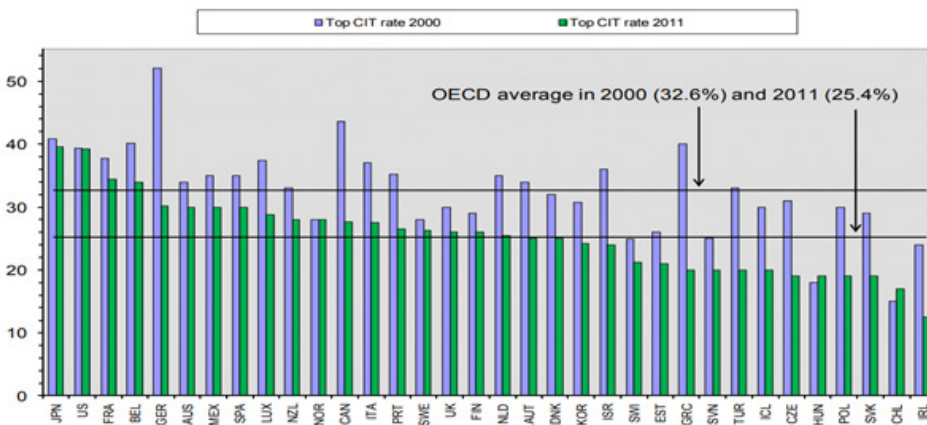
GRAPH 1: Marginal personal income tax rates



1. The statutory personal income tax rate on wage income applicable at the highest income threshold for single individuals. Sub-central government taxes are also included.

Source: OECD Tax Database (www.oecd.org/ctp/taxdatabase).

GRAPH 2: Statutory corporate income tax rates



1. Data ranked by 2011. Sub-central government taxes are also included; for the United States, it is based on a weighted average of state marginal corporate income tax rates.

(Tax foundation: <https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2023/> retrieved, 8/29/2025)

Currently, top marginal tax rates range between 20%-30% and, in accordance with development priorities and fiscal opportunities, they generally increase or decrease within these two limits. As part of an agreement coordinated by the OECD (2011), 140 countries today have a marginal rate above 15%, as a necessity to avoid “*beggar thy neighbor*” policies pursued in the competition to attract foreign investment

Recommendation 4. Financial liberalization: interest rates should be determined by the market. This was a very shallow definition of financial liberalization, considering that this definition currently includes a much broader number of indicators, such as

- Credit allocation by the market and not by the state;
- Interest rates to be set by the market;
- Removing barriers to entry into the financial sector;
- Banks to operate autonomously, if governments own banks;
- Liberalization of the movement of foreign capital.

It should be noted that financial liberalization has remained a controversial issue since the very beginning. The literature on financial liberalization began to develop after the 1970s, with the main authors McKinnon and Edward Shaw (1973), and has been enriched by numerous contributions that continue to focus on its role in economic development. The main thesis pioneered by these two authors was that financial liberalization, through deepening the financial market and eliminating financial market distortions and segmentation, improves the mobilization of savings and increases investment efficiency. On the other hand, the opening and liberalization of financial markets was accompanied by financial crises that were becoming increasingly frequent and severe. The link between financial liberalization and the financial crises that hit many developed and developing countries has been documented in several academic works (see, e.g., Demirguc-Kunt, A., & Detragiache, E. (1998). On the other hand, in countries that had built a sound banking system and effective supervision, the positive role of financial liberalization in economic growth has been widely confirmed (see, for example, King and Levine (1993), Eichengreen et al., (2011), Bumann et al, (2013)).

Williamson, in his recommendation on financial liberalization, did not include capital account liberalization, but simply limited it to the determination of the interest rate by market forces. The history of economic development since this period has shown that financial liberalization required the fulfillment of several preconditions related to the health of the banking system, in particular the establishment of a capable and effective system of banking supervision. This

remains an essential prerequisite for a country wishing to liberalize its financial market today.

Recommendation 5: a unified exchange rate, at a sufficiently competitive level to foster rapid growth in non-tradable exports. The Balassa-Samuelson (BS) effect explains that consumer prices in developed countries are higher than in developing countries, due to differences in productivity levels between sectors: their productivity in the tradable goods sector is higher compared to non-tradable goods (services). The rapid growth of productivity in developing countries in the tradable goods sector leads to wage growth in that sector, putting pressure on wage growth in the non-tradable goods sector as well. Since productivity in the non-tradable goods sector does not grow at the same rate, the prices of non-tradable goods increase faster, leading to higher inflation rates in developing countries. This hits the competitive strength of the economy and reduces exports, shrinking the pace of economic growth.

From an economic policy perspective, it is important to address this issue with the aim of controlling inflation through appropriate policy measures. Inflationary pressures from rising prices of non-tradable goods in developing countries do not affect the competitiveness of tradable goods, and therefore exports. Consequently, a strengthening of the national currency does not necessarily negatively affect the competitiveness of the economy. Empirical testing of the existence of this effect is closely related to the exchange rate regime and the stance that monetary authorities should take in relation to currency appreciation/devaluation.

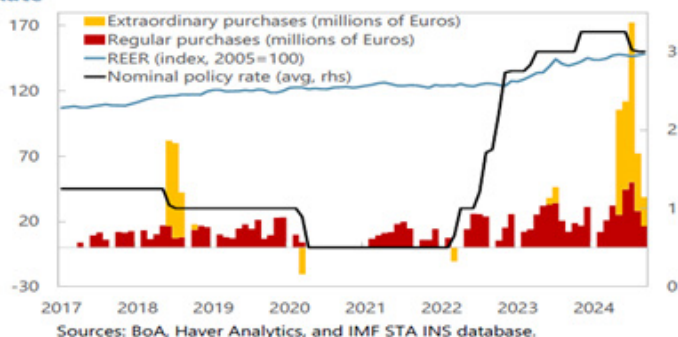
Numerous studies have been conducted to prove the presence of the BS effect for Asian, transition and developing economies. Many studies prove the existence of the BS effect, even for the economies of the European Union member states (see, e.g., Lenarčič, Črt and Masten, Igor (2020)), but other studies for the developed OECD economies do not prove the existence of this effect. (see, e.g., Gulber and Sax, 2019). For full references to these studies, see Couharde et al (2019).

In retrospect, this recommendation still holds true today. Even as countries around the world moved from fixed exchange rate regimes to floating exchange rate regimes, central banks actively intervene in money markets to maintain competitive currencies. Studies have shown that only the major world currencies, the US dollar, the euro, the British pound, the Japanese yen and the Swiss franc, are currencies whose prices are freely determined by market forces. All other countries reporting floating exchange rate regimes pursue policies that manage exchange rates in accordance with their domestic economic objectives.

The strengthening of our currency against the European currency over the last three years has had a strong negative impact on the manufacturing sector and exports, with negative consequences for economic growth. Although the Bank of Albania has actively intervened in the foreign exchange market, it has not been able to influence the appreciation of the currency. The intervention of the Bank of

Albania during the first 9 months of 2024, for example, amounted to about 2.6% of nominal GDP, an amount that is about 3 times higher than the same period in 2023. (IMF, 2025).

FX Intervention, Policy Rate, and Real Effective Exchange Rate



Sources: BoA, Haver Analytics, and IMF STA INS database.

Recommendation 6: Eliminate quantitative restrictions on trade by replacing them with tariffs and their progressive reduction towards a uniform rate until it reaches 10% (up to 20%).

There are two issues here: the first is that quantitative restrictions should be replaced by tariffs. Economic theory is clear that from a distributional point of view, tariffs are preferable because they provide additional revenue to the budget that can be used for investment in the production of public goods, while quantitative restrictions create additional rents in favor of firms that benefit from quotas. Quotas also create restrictions in case of needs for more imports that an expanding economy may require, while tariffs allow imports in accordance with the needs of the industry.

The main topic of debate remains how low customs tariffs should be and whether tariffs are the right and effective tool for economic development?

The relationship between trade policy and economic growth (and development) is a fundamental issue that requires empirical investigation. The widespread view among economists and policymakers is that trade barriers harm economic growth. Many empirical studies confirm and support the thesis on the role of trade liberalization and globalization as a factor of development by promoting technological progress and factor productivity, (Dollar, 1992, Bhagwati and Srinivasan, 2002) as well as the role of trade liberalization in poverty reduction (World Bank, 2020).

Other economic historians have supported the thesis that protectionist policies through high customs tariff rates were explanatory factors of economic growth and development during the 19th century in today's developed countries (see, e.g., for Europe, Bairoch's (1972, 1976, 1989, 1993), Lehman-O'Rourke (2008), etc.). If,

based on the forces of comparative advantage, developing countries will specialize in traditional production sectors, then trade openness can serve as a poverty trap (DeYong, 2005).

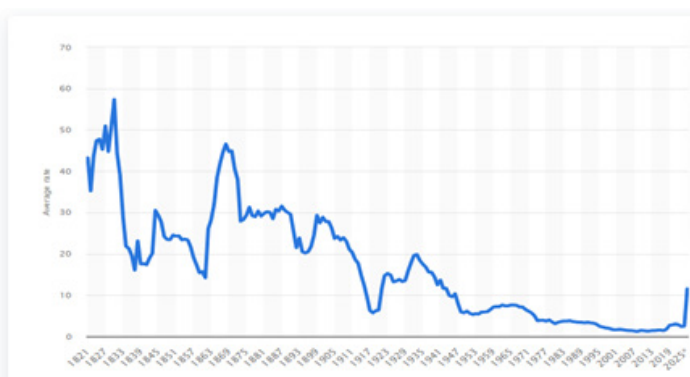
The results of the regression models applied in these historical studies, however, show a high heterogeneity between countries. The thesis that the role of tariffs in economic growth is related to the level of development of a country, finds more confirmation. That is, as a country's income increases, customs tariffs hinder growth, while for countries with low-income levels, tariffs are positively related to economic growth. (DeYong, 2005).

Also, an important factor in this *nexus* is what is protected: when protectionist policies have aimed at protecting traditionally inefficient sectors from foreign competition, the effect of tariffs has been negative on the country's development; tariffs have simply provided additional rents for uncompetitive industries. When tariffs have been structured to enable the development of new industries in sectors with higher potential for emerging competitive advantages, the role of tariff protection has been positive in economic growth and long-term development (Antonio Tena-Junguito, 2010). The historical experience of the 19th century, as well as that of our era, shows that the efficiency of protectionist trade policies in promoting economic development is determined by the way in which tariff protection is structured.

So, what has been the historical level of tariffs and what should they be?

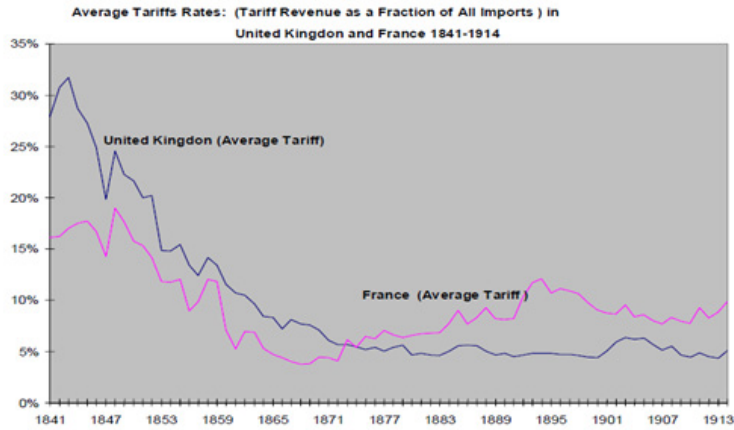
There is no “threshold” level that can be considered helpful or hindering for economic growth. But referring to historical statistics, it turns out that the “peak” tariff levels in the US were applied in the 1830s and the maximum rate was 57.3%. Even in the years of the Great Depression of 1929-33 when the US returned to protectionist policies, the tariff rate applied on imports (measured by the trade weights of imports) was 19.8%. (Graph 3)

GRAPH 3: Average tariff rate on all imports in the United States from 1821 to 2024, with estimated rate for 2025 under Trump's proposals



Source: <https://www.statista.com/statistics/1557485/average-tariff-rate-all-imports-us/>

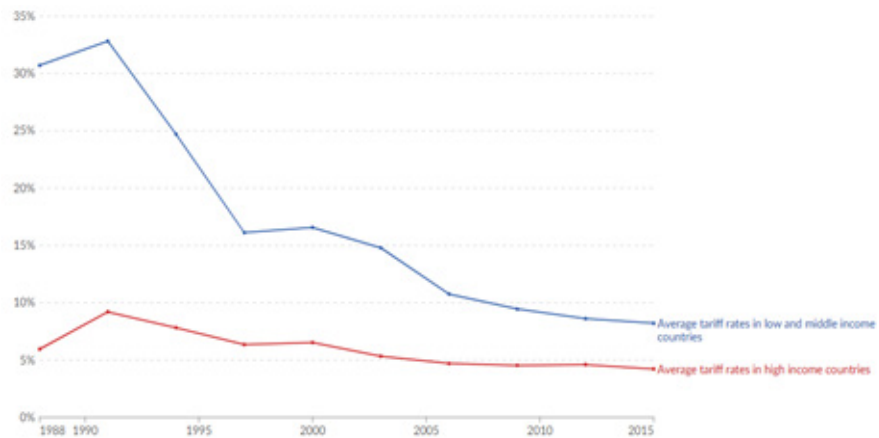
Even the tariff rates applied by England and France in the early years of industrialization, as evidenced by the graphic presentation, have had average levels of less than 35% and with a strong downward trend since the mid-19th century.



Source: Antonio Tena-Junguito, 2002, MEASURING PROTECTION OVER TIME. REVENUE AND PROTECTIVE PRODUCTS IN THE 19TH CENTURY EUROPEAN TARIFF GROWTH DEBATE, <https://www.researchgate.net/publication/4724439>

The reduction of customs tariffs in developing countries began in the 1990s from high levels, comparable to those that developed countries had pursued in their historical perspective. Their strong reduction was carried out over a period of a decade and then tends to converge with the tariff rates of developed countries, maintaining almost 5 percentage points difference.

GRAPH 4. Reduction of customs tariffs applied to all products, %



Source: Our world in data; accessed 9/18/2025;
<https://ourworldindata.org/grapher/average-tariff-rates-per-cent-19882016>

Albania also pursued tariff reduction policies, initially unilaterally, and then as part of obligations from WTO membership and then from free trade agreements with EU and regional countries. With Law 7609 of 1992, Albania for the first time began to implement customs tariffs on imports, applying a maximum tariff rate of 30% on industrial products in protection of domestic production and a minimum rate of 5% on consumer products to ease the cost of living of the population. With tariff rates of 5%, 10%, 15% and 30%, Albania had adopted protectionist policies like the countries of the region. The problem is that these tariff rates were not part of a broader development strategy, for them to be effective. Therefore, their gradual reduction did not produce negative impacts on the country's industrial structure, as protection was given to ineffective industries by providing additional rents for the beneficiaries, without being able to change the country's industrial structure towards the development of new industries with high growth potential. China began industrialization with protective tariff policies similar to Albania's, around 30%, and gradually reduced them until 2001 when it joined the WTO, continuing to reduce them to levels that today are close to the average rates applied by developed countries.

Recommendation 7: Eliminate barriers to the entry of foreign direct investment. In fact, the problem today is the imposition of restrictions on competition between countries to attract foreign investors, such as competitive tariff reductions, “beggar-thy-neighbor” practices and various fiscal and non-fiscal incentives. As the 1997 Asian crisis demonstrated, direct investment is very stable and, unlike capital account liberalization which may have been premature, direct investment continues to be considered supportive of economic development and the integration of economies in developing countries into the global production chain.

Recommendation 8: Privatization of state-owned enterprises. It remains perhaps the strongest libertarian recommendation but given the context of the problems of the public sector and state-owned enterprises that, under the conditions of “*soft budget constraints*”, had created serious liabilities that threatened the stability of public finances, privatization constituted probably the only available alternative. Given the experience of Great Britain under the leadership of Thatcher and the deregulation policies of the United States, the impact of privatization in increasing efficiency and improving privatized services was proving to be a model of success. According to some studies, these positive effects in some cases exceeded the negative effects on employment, while the impact on wages and prices has not been consistent. (Megginson and Netter 2001, Nellis (2003).

The main problem that has accompanied privatization has been the perception that it is a corrupt process, and as Williamson puts it, “perhaps the public would

rather see wealth destroyed than have it transferred to those who bought it through dubious means” (Williamson, 2004).

Recommendation 9: Remove barriers to new firms or those that limit competition. Deregulation, not in the sense of rules to protect health and the environment, but of launching an economic activity with the aim of strengthening competition, is an objective that remains important even today. The World Bank encouraged a process of deregulation of markets, putting countries in a race for reforms to improve their ranking in Doing Business. Albania also joined such efforts, especially after 2005, marking a marked progress in the ranking in this indicator and which significantly facilitated the investment climate in the country.

Recommendation 10. The legal system should ensure property rights without excessive costs, and this should also extend to the informal sector. The inclusion of property rights security, with an emphasis on the formalization of informal businesses, is of particular importance for developing countries, both for expanding the taxpayer base and for increasing investment efficiency. The initiatives undertaken by De Soto, implemented in Peru and extended to other countries, served as a model for Albania in the process of legalizing properties, but with a modest degree of success as informality continued to remain a dominant practice for a long period of time, without being able to establish full control over the territory.

The new context and the need for a new consensus

Unprecedented economic growth of the world economy, low inflation rates, substantial poverty reduction: these are the visible results and contributions attributed to the policies promoted as part of the Washington Consensus. But beyond these very positive results, serious problems have arisen in the meantime, starting from climate change and biodiversity loss, increasing social inequalities, political polarization and the rise of populism, the fragmentation that is occurring in the world economy and the loss of the role of global governance institutions such as the IMF, the World Bank, and the WTO, the strong geopolitical changes on the world stage, which have created a context for the need to formulate a new “consensus” of development policies.

A group of renowned professors and scholars gathered in May 2023 at the London School of Economics (LSE) in search of a new development paradigm, a new consensus on a set of policies that adapt to today’s challenges of global society, which has been named the “*London Consensus* “. (Besley and Velasco, 2025).

New academic research has expanded our knowledge of economic phenomena and the role of policies in the economy. Together with the economic and political developments that have occurred over the past three decades, it helps us to define more fully the principles on which policies should be guided.

Let us start with the definition of “macroeconomic stability”, which was essential in the Washington Consensus. The main aim was to keep public deficits and inflation under control, under conditions of a floating exchange rate regime and a market-determined interest rate. Macroeconomic stability, or the reduction of macroeconomic volatility, remains a fundamental prerequisite for the efficient allocation of resources in the economy. But its definition needs to be broadened. The debt crisis in Europe, which began in 2009 and continued in some countries until 2018, demonstrated that developments in the financial sector can produce serious destabilization in public finances and that a crisis in the financial sector can turn into a public debt crisis. Closely related to this issue is the behavior of interest rates, which have produced and fueled *boom-bust cycles*, creating financial bubbles and increasing the risks of macroeconomic destabilization. This dictates the need for monetary policy to shift more towards the use of macro and micro prudential instruments to be countercyclical. Fiscal policies also need to be revised to be more counter cyclical, like monetary policy. Thus, there is a need for a modernization of Keynesian theory beyond the classical understanding of aggregate demand management. Fiscal policies need to be tightened in “good times” and relaxed in “bad times”, to keep under control the serious social problems that accompany deep recessions and economic and financial crises.

Along with “volatility”, “resilience” should also be a criterion in the evaluation of economic policies. In particular, the problems that emerged during the COVID 19 pandemic and the war in Ukraine have dictated the need for a restructuring of the global production chain, so that the economy is better protected against shocks of this nature. The concept of resilience should also be applied to idiosyncratic risks of the individual/family, such as job loss, health problems, shocks from natural disasters, etc., which affect their well-being.

Both principles that we discussed above create the need for a much more active role of the state’s public policy as an “insurer of last resort”, like that of central banks as “lenders of last resort”, and as “market makers” when financial markets cease to operate.

Another important dimension of *the Washington Consensus* is related to structural reforms: the liberalization-deregulation-privatization paradigm. The theoretical approach of this paradigm is based on the static efficiency gains that stemmed from the economic theory and thought of the time. Since the 19th century, the idea of separating production from income distribution has been dominant in the economic organization of society. The market allocates economic resources towards achieving maximum efficiency (Pareto efficiency), while the

problems that arise in the process of income distribution are corrected through the active role of public finances. In a competitive economy and taxation of economic profits, income redistribution could keep the deepening of social inequalities under control. But since the late 1980s, the theory of endogenous growth began to develop, shifting from static to dynamic benefits. The functioning of a typical Schumpeterian economy of “creative destruction” such as today’s economy produces a new context in the conception of structural reforms. Innovation is now the main source of economic growth and high profits are the main cause of investment in innovation. However, the excess profits created in these new technology industries are impossible to tax because economic profit is difficult to identify, but even when identified, capital mobility enables the transfer to countries that serve as tax havens. If there is no international cooperation, profits and wealth can migrate freely. A good part of the excess profits can also be diverted as income from work and not as income from capital, significantly reducing and diminishing the use of taxation and fiscal policy as a redistribution instrument. In short, *post-distribution* is insufficient to control inequalities: a new *pre-distribution approach is needed*, correcting distribution in the production process. Otherwise, the risk of a “techno feudalism” that Varoufakis describes in his books remains real.

As part of structural reforms there are also trade policies. The reduction of customs tariffs, the fall in transport costs and the liberal regime of international trade and finance, gave globalization a new dimension. There is no doubt, as we argued above through numerous empirical works, that trade liberalization has produced great benefits, especially for small and open economies. But, as the Stolper-Samuelson theorem predicts, the specialization of countries leads to the mobility of factors: of capital from developed countries to developing countries, and of workers in the opposite direction. This produced the emigration of labor in the manufacturing sector from developed countries, creating serious problems for the communities where these industries had previously operated. Social degradation and the fall in wages and incomes in general proved that decisions about *how* to produce (at what wages employment is offered) and *where* to produce (*location*) matter. They cannot be solved through retraining programs and adaptation of the workforce to new jobs. A chemical industry worker finds it impossible to work as a waiter and find the same fulfillment and adaptation. Labor mobility is also almost impossible: the closure of a job in one city will require that work migrate to other cities where new jobs are created. This is a theoretical hypothesis but one that practically does not work. When this happens, the degradation of communities and the social problems that have been created in these communities have been accompanied by major social consequences. On the other hand, foreign emigration to developed countries has been a powerful social destabilizing force in these societies.

The stagnation of incomes, the growth of inequalities (not only economic but also political – the capture of politics by the oligarchy), together with other cultural

problems that immigration produced, are among the factors that fueled populist policies and the growth of political extremism. If until now *the Global North* was in support of economic liberalism while *the Global South* was in protectionism, now the opposite is happening. Of course, this has shaken the liberal world economic order, especially the World Trade Organization. While the more active role of the state and modern forms of protectionism is acceptable, the tariff war will only worsen the economic environment and the flow of foreign investment.

The Washington Consensus was silent on industrial policies, but they are now part of the game. Developed and developing countries are actively developing industrial strategies and technology strategies as part of economic development programs.

Some final conclusions

The Washington Consensus reflected the economic, social, and political context of the time and was based on the knowledge and theoretical paradigms of that period.

It served as a platform for economic policies that were undertaken by governments, and its results have been very positive. Poverty reduction, low inflation rates and economic growth in developing countries are the most important indicators that prove that the recommendations were appropriate and that most of them are still relevant today.

The new economic and political context of today's world requires a reconsideration of the paradigm created by the Washington Consensus, including new elements in the premises of the new policies that need to be implemented. A broader understanding of macroeconomic volatility, resilience, the mitigation of inequalities through a new *pre-distribution approach* alongside a stronger strengthening of traditional redistribution instruments through fiscal policies, active public policies in economic development (industrial and technological strategies), require a more active role of the state. The increase in the role of the state requires the construction of itself and its institutions, considering it as the basic infrastructure of society. Without a strong and efficient state, even markets cannot exist and be efficient.

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