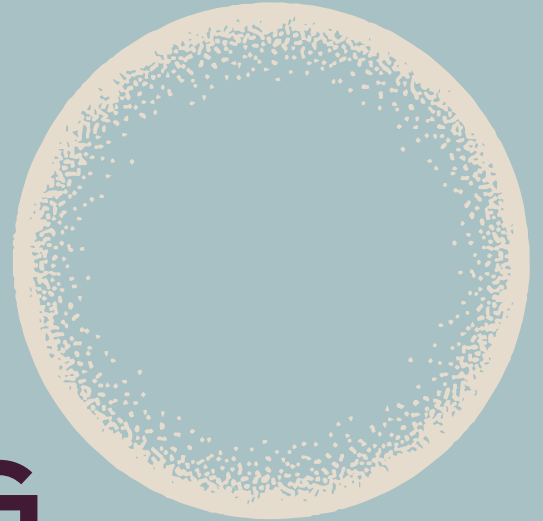


FORUM  
NEW  
ECONOMY



# MAPPING THE STATE OF A SHIFTING PARADIGM

NEW THINKING, NEW ACTORS

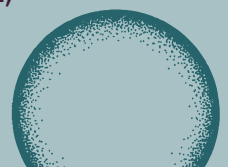
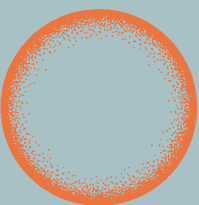
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On the State of an Emerging  
Socio-Economic Paradigm Shift  
in Germany and Beyond

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## List of Abbreviations

|       |  |       |  |
|-------|--|-------|--|
| BDI   | Bundesverband der Deutschen Industrie (Federation of German Industries)  | IMF   | International Monetary Fund  |
| BIS   | Bank for International Settlements   | IMK   | Macroeconomic Policy Institute   |
| BMF   | Bundesministerium der Finanzen (German Ministry of Finance)  | INET  | Institute for New Economic Thinking  |
| BMWK  | Bundesministerium für Wirtschaft und Klimaschutz (Federal Ministry for Economic Affairs and Climate Action)                      | IPPR  | Institute for Public Policy Research   |
| COR   | Committee of the Regions   | LOLR  | Lender of Last Resort  |
| DGB   | Deutscher Gewerkschaftsbund (German Trade Union Confederation)   | MCC   | Mercator Research Institute on Global Commons and Climate Change   |
| DIW   | Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research)   | MMT   | Modern Monetary Theory   |
| EC    | European Commission  | NAEC  | New Approaches for Economic Challenges   |
| ECB   | European Central Bank  | NEF   | New Economics Foundation   |
| ECU   | Economic Change Unit   | OECD  | Organisation for Economic Cooperation and Development  |
| EESC  | European Economic and Social Committee   | OFCE  | Observatoire Français Des Conjonctures Economiques (French Economic Observatory)                                 |
| EMS   | Emissions Trading System   | PEF   | Progressive Economy Forum  |
| ESM   | European Stability Mechanism   | QE    | Quantitative Easing  |
| ETCLD | Expérimentation Territoriale contre le Chômage de Longue Durée (Territorial Experiment aimed at Reducing Long-Term Unemployment) | SDG   | Sustainable Development Goal   |
| FTT   | Financial Transaction Tax  | SVR   | Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (German Council of Economic Experts) |
| GFC   | Global Financial Crisis  | UBI   | Universal Basic Income   |
|       |  | UBS   | Universal Basic Services   |
|       |  | UCL   | University College London  |
|       |  | WEAll | Wellbeing Economies Alliance   |
|       |  | WHO   | World Health Organization  |
|       |  | YSI   | Young Scholars Initiative  |



# MAPPING THE STATE OF A SHIFTING PARADIGM EXECUTIVE SUMMARY

For more than three decades, economic and societal policies have very much been led by market-liberal principles. Since the financial crisis in 2008, this leitmotif has lost a lot of its attraction leaving a dangerous paradigmatic vacuum behind that populists try to fill.

The failure of former guidelines has also led to a lot of seemingly ad hoc government interventions to solve current crises. Is this comeback of the state sort of a societal fashion with no systematic economic foundation? Or does it reflect the emergence of a new paradigm crucial to find more elaborated answers to the new major challenges left behind by the market-liberal era, from climate change and serious inequalities to the crisis of globalization and the instability of financial markets?

The present report tries to evaluate if recent developments in research and policy reflect the beginnings of such a new paradigm. It also evaluates which stage this renewal has reached compared to former paradigmatic changes in history. Our research indicates that there is more than ad hoc research on new challenges.

During the past one-and-a-half decades, a comprehensive body of academic work has evolved in a wide range of areas. The report identifies at least a dozen major new streams of thought each reflected by prominent international thinkers ranging from Dani Rodrik regarding the redefinition of globalization and Thomas Piketty on how to reduce inequalities to Mariana Mazzucato's work on an innovative state. For Germany, such new streams of thought are represented by innovative researchers like Moritz Schularick, Jens Südekum, or Isabella Weber. This largely uncoordinated work has the potential to be seen as the intellectual core of a new paradigm in hindsight as the work of monetarists and supply-siders has been for the market-liberal paradigm in the past.

The report also identifies a growing number of organisations or individuals actively supporting the search for a new paradigm with Germany catching up in comparison to work undertaken in the US and the UK. These actors include platforms and think tanks like the Forum New Economy and The New Institute as well as Dezernat Zukunft or the ZOE Institute For Future-Fit Economies.

Our systematic comparison over time confirms that there also is a clear paradigmatic shift in positions held by leading international institutions since the high times of market liberalism. The OECD having advocated flexible labor markets during the 1990s today defends minimum wages and better jobs. The IMF has abandoned its formerly unconditional support for free capital movements. Also, institutions like the IMF and the EU Commission today defend more flexible fiscal policies instead of harsh austerity. The same holds for individual governments like the German coalition formed in 2021 that has since raised the national minimum wage, adopted major credit-financed public climate investment packages or introduced new concepts of prosperity and supplementary indicators to GDP in the government's annual economic report.

Comparing the current changes with former historical examples unravels a shift that is clearly in the making. However, it also becomes clear that there are still elements missing for a full-blown paradigm change. There are still answers to major challenges to be developed, e.g. on how to reverse

socially critical wealth inequalities that seem to reinforce themselves via inheritance. Changes perceptible in major institutions most of the time remain incremental with few examples of major new approaches implemented like the new wellbeing budget in New Zealand, for instance. A broader societal paradigm shift also requires an equally broad consensus across party lines on the need for a renewal with social-democratic as well as liberal and conservative interpretations of such a new common understanding.

Stating that the emerging paradigm shift is far from being completed does not necessarily mean that it will not happen. As the market-liberal precedent has shown, such shifts are complex processes evolving over a longer period of time with crisis moments often acting as a catalyst. Due to its apparent insufficiencies and the development of alternative ideas, it seems highly improbable that a strongly market-liberal paradigm will re-appear in the coming years.



# MAPPING THE STATE OF A SHIFTING PARADIGM

NEW THINKING, NEW ACTORS

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# INTRODUCTION

Western democracies today are confronted with a strikingly similar set of multiple crises. These range from rising inequality to climate change and a more profound loss of confidence in the established political actors. Empirical evidence indicates that significant parts of these crises are linked to the downsides of **the long-held market-liberal paradigm** that guided policymaking across most of the world for at least three decades. As with comparable moments of transition from the past and knowing that societies rely on an overall leitmotif<sup>1</sup> to function in trust, this collapse of a paradigm has left a dangerous vacuum—a **paradigmatic vacuum** that **populists** are trying to fill using simplistic answers without really addressing the challenges generated by this failure.

A search for new answers has begun, revolutionizing economic thinking in many respects, and history shows us that such major paradigmatic shifts in societies may happen. The question is, will a new overall paradigm ripen fast enough, and where do we stand in this process?

The aforementioned failures of the market-liberal paradigm have brought about disruptive phenomena like Brexit and the rise of Donald Trump, and there is a severe threat today, that populist forces will once again gain momentum before a more convincing new paradigm is available to attract people. In this sense, finding and implementing a new paradigm is something like a **race against time**, and there is an urgent need to fill the paradigmatic vacuum with a new leitmotif capable of bringing societies together again and of guiding politicians while they are solving the significant challenges of our times.

This current urgency implies that piecemeal solutions to the big challenges of our times will likely not be sufficient to restore confidence and avert another major drift toward populism: “The historic parallels here are the major steps taken at the end of the Second World War, rather than the half measures that emerged from the 2008-2013 crisis”, as notes a group of high-level experts in a recent report for the European Commission (Carraro et al., 2022, p. 15).

At the same time, it seems highly unlikely that fundamental problems like inequality or climate change will be solved without a major shift in the principal guidelines for policymaking. History has proven how powerful economic paradigms can be. Michael Jacobs and Laurie Laybourn-Langton (2018) show how such major policy changes in Western countries occurred after times of economic and financial turmoil. Following the Great Recession of the 1930s, more regulating policies in the **post-war era** replaced the ‘laissez-faire’ or market-liberal approaches that had dominated early industrialization, starting with the **New Deal** in the US and the **Bretton Woods** institutions on an international scale. Then, in the 1980s, after the currency and oil crises of the 1960s and 70s, **market liberalism** became the leading paradigm once again. Each time, the new leitmotif dominated mainstream thinking as well as practical policymaking across the political spectrum.

Since the Global Financial Crisis (GFC) in 2008, there is ample evidence of the search for new ideas and policy approaches that seem more suitable than the former strict market preference in rising to today's challenges. This took place quite early

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1 ‘Leitmotif’ is used to mean guiding principles.

in the US and UK, where market fundamentalism had been more pronounced and left more striking damages. These **new ideas** include, how to better understand and handle high income and wealth **inequality**, how to deal with the **distrust in globalization**, and how to better manage the overall **climate** mitigation process by integrating it into current fiscal or financial policies. Other strands attempt to better define growth or wellbeing or to fundamentally redefine the **role of the state** versus the markets to replace an all-too-simple belief in the efficiency of markets.

Such new ideas have been developed and promoted by **prominent international voices** such as Mariana Mazzucato, Dani Rodrik, Kate Raworth, Branko Milanovic, Joseph Stiglitz, and others. And these names are not only resonating in academia but also within important policymaking bodies. Mariana Mazzucato's work is gradually shaping policies, including the European Commission's industrial strategy, the Organisation for Economic Cooperation and Development's (OECD) Better Life Initiative, and the World Health Organization's Council on the Economics of Health for All. In 2021, the G7 Panel on Economic Resilience, comprised of high-level experts proposed a new 'Cornwall Consensus' (Mazzucato, 2021a). In 2022, the EU Commissioner for the Economy, Paolo Gentiloni, convened the aforementioned high-level group that recommended member state governments take bold action and implement a 'new deal' (beyond the Green Deal), to reduce disparities in light of the 'triple transition' of climate, digital and demographic change (Carraro et al., 2022, p. 48).

The idea of an emerging overall paradigmatic shift is gaining momentum in continental Europe. While lagging behind these new developments during the first years following the GFC, Germany has since caught up, and prominent innovative economists like Jens Südekum, Moritz Schularick, Isabella Weber, Dennis Snower, Maja Göpel, Robert Gold, Marcel Fratzscher, and Philippa Sigl-Glöckner have become influential in policy circles.

Despite all of these developments, what can be called modern economic thinking is not yet ripe to culminate into a new, overall paradigm that could guide policymakers. Also, there is still significant

resistance to new approaches, which is not unusual during paradigm shifts. This can be seen in the US, where President Biden has struggled to implement some of the more fundamental reforms. UK Prime Minister Liz Truss, in the fall of 2022, started with a strongly market-liberal agenda. It is also true of Europe and Germany, where, despite much evidence, those who still push to restore market liberalism continue to have a major influence on institutions like the Bundesbank or parts of the Federal administration. In addition, the recent rise in inflation has been interpreted by more orthodox voices as a clear sign of the limitations of more future-oriented fiscal policies toward climate protection or the fight against inequality.

To better interpret these phenomena, it is crucial to better understand where we stand in the process of an emerging new paradigm. What are the new ideas that are around? Who are the main drivers and indirect contributors? What are their strengths and weaknesses? And, to what extent have new ideas already entered practical policies?

The following research will evaluate the state of this shift from a broader paradigmatic perspective with a focus on Germany as the European country which has maintained the *ordo-liberal* orthodoxy for longer while also being the most decisive influence on economic policymaking within the European Union. The research begins with the assumption that socio-economic paradigm shifts follow typical patterns and that current developments can be measured against<sup>2</sup>.

To capture the complexity of such a process, we focus on an overall **understanding of paradigms as a major policy-defining factor and how paradigms shift in modern societies**. The central idea is that functioning **societies need guiding principles** to help policymakers find adequate day-to-day, as well as longer-term answers to the main challenges. Such paradigms also serve to make people trust that policymakers will follow goals and approaches around which there is a large societal consensus. It is, therefore, not (only) about establishing one concrete agenda of policies but also about developing guiding principles that would in the current case replace the overly simple idea that markets always do a better job.

2 Reference is usually made to Thomas Kuhn's theory of paradigms which still refers to shifts in thinking within the natural sciences. These, in many respects, follow similar rules. As the current paper is about a social paradigm shift that has many similarities, but also differences, we will not strictly follow Kuhn's framing. See Laybourn-Langton & Jacobs (2018), for a definition of socio-economic paradigms.

Based on historical experience, it is important to consider that **paradigm shifts do neither happen in a day nor emerge as a simple linear process**. As shown in the years after the Crash of 1929 or during the process leading to the market-liberal era, these shifts **follow a complex societal process over a longer period of time**. Based on the categorization established by Michael Jacobs et al. (2019), the shifts are strongly driven by an increasing gap between the premises of the paradigm and a reality that does not fit the model. The **decisive shift** has to be triggered by a **major crisis** that heavily discredits the old understanding – as with the phenomenon of stagflation which set the stage for the market-liberal shift in the 1970s. In the current case, the global financial crisis as well as rising inequality driven by market mechanisms have had a crucial impact on weakening the former paradigm.

According to historical precedents, the search for new answers gains momentum as more and more supporters of the old open up to new ideas, whether they be in research, media, or policy advocacy. This process is typically also driven by central, core actors who expressly push for a whole new paradigm along with individual thinkers or decision-makers working inside the conventional institutions. As theorist Thomas Kuhn once stated for academia, a new paradigm only fully replaces the old when there is a **convincing new set of guiding principles**. These principles in our socio-economic context then start to dominate research, public debates, and policymaking. In the current case, the idea that markets are the best choice to solve our problems confronts us with a growing number of crises apparently caused by free (financial) markets. This nourishes new academic research, first focusing on the demonstration of the old paradigm's failures, but subsequently followed by research on how to design better policies.

This reading of paradigm shifts very much defines the questions we will progressively try to answer in identifying in which stage the current paradigm shift is. Academic insights are important but **only explain part of a paradigm shift**, as Jacobs et al. have pointed out. Also, a paradigm shift gains momentum when the **mindset shifts across political and societal borders**. It is therefore important, not only to **map the institutions** that explicitly and exclusively push for a shift but also to **identify the individuals** playing important roles in the complex processes – and to identify the change toward what is considered to be a new

mindset, as well as the change in mindsets **inside the conventional institutions**. Understanding these processes fits with our theory of change in which paradigm shifts are the result of a progressive shift of the mindset with the introduction of an increasing number of new ideas over time, necessarily accompanied by a growing number of former mainstream thinkers turning to new ideas. We will **structure our analysis** by,

Part 1. Describing a large set of new, core economic ideas and thought systems that have emerged to replace the old market-liberal paradigm.

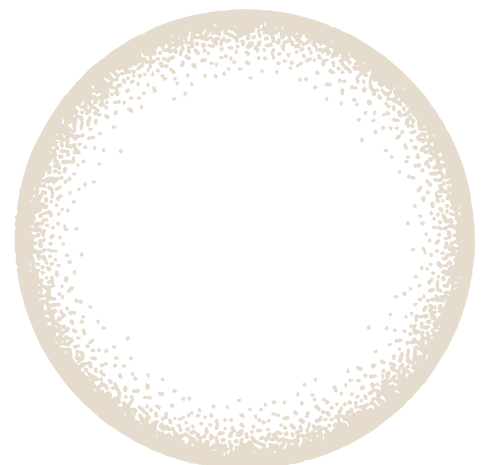
Part 2. Providing a comprehensive overview of the rising number of factors contributing to a shift in the mindset, distinguishing between explicit paradigm changers, and others.

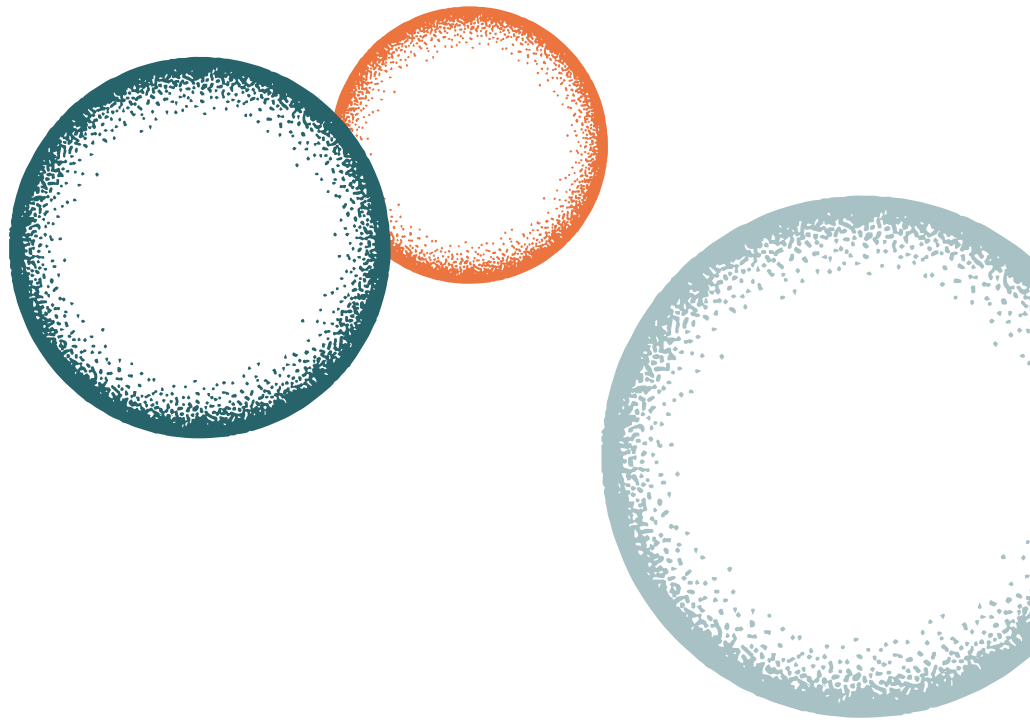
Part 3. Illustrating that there has already been a noticeable shift of thinking in main international institutions like the IMF, the OECD, major central banks, and finance ministries.

Part 4. Evaluating the extent to which new ideas have been adopted by or have influenced political groupings and parties in Germany and across Europe.

Part 5. Showcasing a set of more fundamental new approaches that have been tested by individual governments and institutions.

All in all, we will see that there is now considerable progress in new thinking and policies, while there is still a way to go to achieve a new paradigm amidst serious challenges reflected by the risks of a new populist wave.





# PART 1.

## MAIN STRANDS OF NEW ECONOMIC THINKING TO REPLACE THE MARKET-LIBERAL PARADIGM



The GFC beginning in 2008 put Western democracies through a decade-long period of instability that the Covid-19 pandemic more than exacerbated. These crises have revealed many fallacies of the market-liberal paradigm to the point where a growing array of thinkers and policymakers now share the idea that the four-decades-old paradigm has come to an end. While no coherent new paradigm has yet emerged, a large set of academic work has since established what went wrong and suggested new answers. The common feature of these new approaches appears to be the rejection

of the idea that markets are always efficient and an attempt to go beyond a traditional understanding of wellbeing, toward a more socially just, financially stable, and environmentally sustainable economy.

In this chapter, we will first describe the more fundamental challenges to the old economic thinking that have developed since the GFC, and then establish a comprehensive overview of the main new streams of thought that have emerged as part of new economic thinking.



# 1.1 The Shift in Economic Thinking Since 2008—Theoretical Background

During the era of market liberalism—from the 1970s to 2008—economic policy mainly rested on a few fundamental assumptions of neoclassical economics that dominated the public discussion. An initial core set of assumptions were concerned with human behavior, which shaped the ‘representative agent’ used in typical economic models—that individuals are perfectly rational, utility maximizers, possess perfect and complete information of their options, and are able to process them quickly, and that their decision-making is not influenced by external factors or other individuals. A second central assumption was that competitive markets would produce the optimal levels of output and consumption, and policy should primarily be concerned with liberalizing markets as much as possible. A third assumption was that in the long run, the economy always tends toward full employment equilibrium, and instabilities can only be exogenous or caused by false policies.

Despite acknowledging the existence of market failures (or externalities) and therefore conceding government intervention in a few areas, a general distrust among neoclassicals in governments' ability or willingness to act for the best created an environment of solid skepticism toward state intervention. As Ronald Reagan (1981) famously declared, “Government is not the solution to our problem; government is the problem.”

Although the neoclassical framework did not exclusively inform the economic policy of the market-liberal paradigm, it very much dominated the macroeconomic policies applied during the period. While there have been financial crises before—like the Asian crisis or the Dot.com crash—the GFC of 2008 fundamentally shook the old belief system. Never had the financial markets been more extensive and more deregulated. But, instead of being efficient, market participants were driven by “irrational exuberance” (Shiller, 2000), thereby challenging the fundamental idea that efficient markets should have been able to anticipate a crash. Jacobs and Laybourn-Langton (2018) describe that there has been a growing gap between the premises of the paradigm and a reality that does not fit the models. Also, the assumption of efficient markets did not fit with the apparent incapacity of markets to anticipate (and price in) the climate crisis, or the increasing inequalities, contradicting the ‘trickle-down’ idea.

The GFC of 2008 was a major hit to the credibility of market fundamentalism. This has led to a moment of awareness—even among orthodox economists and economic institutions—that the old analytical framework did not lend itself well to either anticipating crises or limiting their consequences. More recent economic theories try to be a better fit for providing alternative explanations and solutions to the problems that the old mainstream theories and policymaking have failed to untangle.



The fundamental question inevitably revolves around how to better explain and consider that human beings do not act as rationally as neoclassical theory assumes. These insights are not new. Joseph Stiglitz, Michael Spence, and George Akerlof have developed insights into the imperfection of markets since the 1980s (Löfgren et al., 2002). Also, early on, behavioral economics started to build a more realistic picture of an individual's economic behavior. It differs from the neoclassical assumption, proposing that individuals no longer possess complete information and are not perfectly rational and unbiased. Instead, they face cognitive limitations and rely on a restricted set of information usually inscribed within a subjective frame of beliefs and moral and ethical views. Social structures and personal relations greatly influence our expectations and choices (Simon, 1997). All these theories nevertheless have gained traction since the GFC and can help us better understand mass behavior like herding in financial markets. They might also explain why market pricing alone does not lead to efficient climate mitigation since investors lack a sufficiently long-term horizon.

Similarly, a recent avenue of research in *Narrative Economics*<sup>3</sup> – popularized by the seminal work of Robert Shiller (2019) – claims that studying popular or viral stories that influence people's economic behavior has significant potential for improving our understanding of and ability to predict, financial crises and other major economic events.

Additionally, the GFC provided an opportunity to propose alternative views to the 'efficient markets' hypothesis, including a better explanation of boom-to-bust cycles and better instruments to counter them. The Post-Keynesian School of economics had early on claimed that financial markets were inherently unstable. The 2008 crisis created the momentum for debunking many of the old beliefs, not just regarding financial regulation but also in fiscal and monetary policy matters. Both Post-Keynesians and more mainstream economists started to see the limitations of conventional monetary policy both in stimulating growth and the equal redistribution of its fruits. The risk of a depression following the GFC (as well as after the damage from Covid-19 in 2020) also led to rethinking the idea that governments should not let deficits rise when trying to support the economy. Some have come to claim that high debt levels can be sustainable as long as the growth rate exceeds the interest rate paid. New theories, like Modern Monetary Theory (MMT)<sup>4</sup>, question the basis of monetary policy, claiming that public spending can be financed through money creation as long as it does not lead to inflation.

With respect to inequality, there has been increasing evidence that growing wealth or income does not automatically lead to more economic growth and the 'trickle down' effect on income or wealth. Instead, deregulated labor markets tend to produce segments where low wages dominate, and workers are at risk of not advancing into better jobs.

3 This research explains how popular stories and ideas, whether they are spread by word of mouth, news or social media, have the power to drive the direction of markets by influencing people's economic and investment decisions (Shiller, 2019).

4 MMT is a school of thought mainly concerned with the study of the credit system and money creation. It presents a radical alternative to the neoclassical conception of money by supporting the idea that: i) credit banks are not mere intermediaries, but can create book money, ii) central banks only set the interest rate and have no control on the money supply, and iii) sovereign states cannot go bankrupt as they own the instruments through which they create and destroy money, namely via central banks and taxes. For a deeper understanding of MMT see Mosler (2010), Wray (2012), Mitchell et al., (2019), Kelton (2020).

In economics, this has contributed to a complete reversal of the views on minimum wage. About 30 years ago, most economists agreed that minimum wages caused unemployment, as shown by the surveys by the American Economic Association. This has been fundamentally questioned by David Card, who received a Nobel Prize primarily for his work with Alan Krueger on minimum wages. A minimum wage may even have a positive employment and productivity effect as it compensates for the lack of power of employees in the labor market (Krebs & Drechsel-Grau, 2021).

On global trade and globalization, the view that free trade will produce overall net gains while losers might be compensated has been challenged by theories that better explain why globalization or technology shocks might produce lasting disruptive damages (Rodrik, 2017a).

All these developments point toward a radical rethinking of the relationship of power between the state and markets. As inequality has grown and the uneven distribution of the benefits of international trade becomes evident, the old assumption that international trade should remain unbridled no longer holds.

There has also been a reversal of the view that markets do not lead to damageable monopolistic behavior, as proponents of the old Chicago School like George Stigler once claimed. According to this view, even though monopolistic behavior by firms in the goods market might constitute a theoretical problem, this issue is rather negligible in practice. In addition, even if market failure is an issue, government failure (regulatory capture) is always a more relevant cause for concern. This view has been replaced even among members of the New Chicago School.<sup>5</sup>

Today, there is a rising literature about the dramatic market power of internet firms like Amazon or Meta. Over the last decade, legal scholars, political scientists, and economists have noticed a significant shift in thinking, breaking with the optimism about technological leaps prevailing during the dot-com bubble era. The digital economy has since become a case study for political economy scholars, partly due to the monopolistic features present in the digital economy, *inter alia* scale and network effects, and their potential for political mobilization. It is becoming increasingly evident how these enterprises exert market power and create market asymmetries. This is why calls for stricter regulation come from a broad field of economic thinkers and legal scholars (Bria, 2022; Pistor, 2020).

The climate crisis and the general degradation of our natural environment have become another critical point for rethinking some of the neoclassical assumptions and a domain where alternative schools can provide a better interpretation. Many trains of thought – deriving from ecological economics and beyond – have questioned the neoclassical assumption of environmental degradation as a market externality that one can solve through simple tax and incentive mechanisms, like carbon pricing. New approaches suggest a broader conceptualization of the value of nature and assume economic systems to be a subset of it and dependent on the natural environment to function properly. In this view, market instruments can do very little or nothing to solve the crisis. Instead, a more radical transformation is needed.

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5 See also the book by Jan Eeckhout (2021), who makes a good case that anti-competitive behavior is a major problem in the US and hurts consumers and workers.

## 1.2 Main New Thinkers and Schools of Thought

The questioning of orthodox economic policy-making and the rise of alternative ideas has taken place in a dynamic and uncoordinated process where numerous outstanding critics and new proposals have emerged at different levels in various fields. Nevertheless, it is possible to identify a number of key new trains of thought and exceptional scholars that are reflecting today's new economic thinking. This does not mean that these themes converge into a coherent new model. On the contrary, they sometimes contradict each other. But this is not an unusual phenomenon. It was also the case when the main schools of thought built market liberalism, with monetarists fiercely opposing neoclassical colleagues. Still, both found a common denominator in their shared belief in the markets. In a similar sense, the very different economists quoted in this chapter may, in hindsight, be seen as the core contributors of a new paradigm, just as much as the Mont Pèlerin Society economists like Milton Friedman and Friedrich Hayek were for market liberalism.

To better make sense of the contributions' diversity, we propose categorizing the themes

according to their objectives and dimensions. The first category is composed of concepts that are innovative reforms or policies inside the current institutional and systemic setting. A second category includes broader concepts of policy instruments that aim to better address climate change as one of the main challenges of our time. The third category comprises more systematic changes or redefinitions of societal objectives, for example, going beyond GDP as a measure of wellbeing. In our review, this categorization does not reflect a judgment on whether, for example, incremental versus radical reforms are good or bad. The distinction starts from our basic assumption that paradigm shifts result from a complex process where more and less radical responses may develop depending on time and the corresponding challenge. In a field that has early on departed from the old thinking, there may not be any need for fundamental reforms anymore, while in others, there still might be. On the other hand, a more moderate reform may be a necessary starting point to break up old beliefs to develop more consequential answers in the learning process.

## Reforms Within the Current Institutions

### **Modern Climate Policies** – *Tom Krebs et al.*

The inherent instability of markets has led climate economists like Ottmar Edenhofer and Brigitte Knopf to propose a more stable system with fixed floor (and ceiling) prices (Knopf et al., 2018). New approaches also assume that achieving climate neutrality requires more than letting carbon prices rise to disincentivize carbon investment. According to the old paradigm, climate policies had to rely almost entirely on such carbon pricing and were thereby destined to create tensions between climate goals and social cohesion due to higher energy prices. A new climate policy – defined by Tom Krebs as “modern climate policies” (2021) – applies a price on carbon but goes way beyond, to include large-scale investment in public infrastructure, an active industrial policy, and a labor market policy. A good example of such a broad definition is the promotion of *green hydrogen*, where the State is set to create the necessary infrastructure (hydrogen pipelines), actively support the industry in the green transition (green production of steel) and strengthen social partnership (increasing union coverage and employing minimum wage policy). More practically, Eric Lonergan (2022), suggests that the goal should be to generate electricity in a fully sustainable way and then electrify the whole economy. The ultimate goal of a modern climate policy, in this sense, should be to regulate utilities and cull the cost of capital for sustainable alternatives while targeting the relative price of substitutes.

### **Pro-Active Policies to Anticipate Major Disruptions** – *Jens Südekum et al.*

There is a large literature now showing that populism particularly attracts people in regions that have been hit by disruptive shocks, like the former industrial regions in the UK, or the Rust Belt in the US. Contrary to the conventional view that the losers from globalization or technology shocks just need to be compensated ex post, economists like Südekum (2017, 2022) have

developed a preventive approach. Policies should be conceived to avoid the consequences of trade shocks when regions with a high concentration of export-competing industries gain, while regions facing strong import-competition lose from trade liberalization. Instead of compensating losers, more pro-active regional policies should be employed to either promote valuable businesses in depressed areas or support the transition (e.g., to greener industries) before a downward cumulative causation sets in, i.e., preventing electoral revenge through the election of populist governments.

### **Rethinking Fiscal Rules to End Austerity**

– *Olivier Blanchard et al.*

The simple belief that public spending systematically ‘crowds out’ private investment, and therefore fiscal deficits are undesirable, has been superseded by new stances on fiscal and monetary policy and debt sustainability. Fiscal policy has proven efficient in stabilizing economies after significant shocks like the pandemic. In contrast, intense austerity has caused lasting economic damages without helping to reduce debt, as experienced in the case of Greece. Former IMF Chief Economist Olivier Blanchard – a prominent voice from the old orthodoxy – is a clear example of the shift in mindset. In 2011, he admitted that the 2008 GFC had opened the way for a deep questioning of how to conduct macroeconomic policy (Blanchard, 2011). In 2021, Blanchard and his colleagues suggested that the EU abandon its strict quantitative fiscal rules (such as the 3 percent deficit ceiling) in favor of budgetary standards or qualitative prescriptions that would lead to individual recommendations and consider the particular situation and debt sustainability. The process should then be monitored by newly created independent fiscal institutions (Blanchard et al., 2021). Overall, a growing number of economists, from both orthodox and heterodox schools, including Michael Hüther<sup>6</sup> and Jens Südekum (2020), and Darvas et al. (2018), are contributing to the debate on how EU fiscal rules can be reformed to avoid pro-cyclical fiscal policies and allow for a persistently high level of public investment into climate protection and other long-term societal needs.

6 Michael Hüther at the German Economic Institute (IW) is an example of a German economist in a conventional institution who is advocating deviation from the market-liberal narrative of balanced budgets.

**Table 1:** Overview of main streams of new economic thinking

| I. Reforms Within the Current Institutions                   |   |
|--|---|
| Redefining the Role of the State—Towards a More Active State |   |
| Redefine the Role of the State—Fiscal Policies               | Rethinking Fiscal Rules To End Austerity • <b>Olivier Blanchard, et al.</b> • More flexible and less pro-cyclical fiscal rules or standards, allowing for climate investment  |
| Renewing the Role of Central Banks                           | Unconventional Tools Of Monetary Policy • <b>Ben Bernanke, Paul de Grauwe, et al.</b> • Use monetary policy not only to fight inflation but also to stabilize markets and avoid depressions (lender of last resort) |
| Remaking Finance   | Reducing Excess Volatility • <b>Moritz Schularick, Adair Turner, et al.</b> • Stabilize markets via higher and countercyclical capital ratios for banks, and macroprudential policies                               |
| Reversing Inequality   | Reducing Inequality Via Ad Hoc Instruments • <b>Thomas Piketty, Branko Milanovic, et al.</b> • Redistribute via higher wealth/income taxes, basic inheritance, land tax, sanctioning tax havens                     |
| Making Globalization Work for All                            | Pro-Active Regional Policies To Counter Major Disruptions • <b>Jens Südekum, et al.</b> • Promote green transition before downward spiral sets in   |
| Redefining Climate Policies                                  | Modern Climate Policies • <b>Tom Krebs, et al.</b> • Beyond carbon pricing—public investment, integrated industrial policy approaches   |

cont. **Table 1:** Overview of main streams of new economic thinking

## II. New Overall Policy Concepts

**Redefining the Role of the State—Towards a More Active State**

**Innovative State • Mariana Mazzucato, et al. •** Entrepreneurial state following mission-oriented policies (moon-shot)

**Redefine the Role of the State—Fiscal Policies**

**Fiscal Policy for the Real Economy • Philippa Sigl-Glöckner, et al. •** More systematically re-orient fiscal policies away from debt criteria towards real economy goals

**Renewing the Role of Central Banks**

**New Mandates and Helicopter Money • Adam Tooze, Adair Turner, et al. •** Central banks with formally extended mandates including climate, financial stability and equality goals; outright transfers from central banks to households

**Remaking Finance**

**Taming Financialization • Daniela Gabor, Joseph Stiglitz, et al. •** Systematically reduce the dominance of the financial sector over the real economy via instruments like the Financial Transaction Tax or the downsizing of shadow banking

**Reversing Inequality**

**Good Jobs As A New Labor Market Guideline • Dani Rodrik, Stephanie Stantcheva, Daron Acemoglu, David Card •** Innovation policies favoring labor-friendly technologies and social standards, minimum wages

**Avoiding Excess Wealth And Income Via A Highly Progressive Tax System • Emmanuel Saez & Gabriel Zucman et al. •** Reintroduce very high taxes on wealthy households and limit tax avoidance through sound enforcement practices

**Making Globalization Work for All**

**End Hyper-Globalization • Dani Rodrik, et al. •** Rebalancing of power (e.g., from capital/business to labor/broader society)

**Redefining Climate Policies**

**Green/Inclusive Growth • OECD, Nick Stern, Ottmar Edenhofer, et al. •** GDP growth remains essential to economic objectives, but the economy needs to operate within environmental limits

**cont. Table 1:** Overview of main streams of new economic thinking

### III. Systemic Changes and Redefinition of Societal Objectives

**Redefining the Role of the State—Towards a More Active State**

**Redefine the Role of the State—Fiscal Policies**

**Renewing the Role of Central Banks**

**Remaking Finance**

**Reversing Inequality**

**Making Globalization Work for All**

**Redefining Climate Policies**

**Modern Monetary Theory • Stephanie Kelton, et al. •** Systematically disregard debt. Governments should spend, as long as there is no inflation impact, to achieve full employment and prosperity

**A New Bretton Woods System • Joe Stiglitz, Kevin Gallagher, Richard Kozul-Wright •** Reviving an institutionalized global system to stabilize and direct financial flows

**Universal Welfare And A Redefinition Of Work-Life Balance • Marcel Fratzscher, Pavlina Tcherneva, et al. •** Universal Basic Income/Universal Basic Services/Basic inheritance/Reducing work time

**Beyond GDP •** Redefining the objectives of human wellbeing  
**Beyond Growth Approaches •** → De-grow the economy, → Post-growth strategies—or how to avoid an ex-ante choice on growth  
**Doughnut Economy • Kate Raworth**

### Unconventional Tools of Monetary Policy

– Ben Bernanke, Paul de Grauwe et al.

The 2008 GFC has profoundly changed how many economists and policy advisers think about monetary policy, and it appears that new unconventional monetary policies will remain part of central banks' toolkits. Pre-crisis monetary policy was built on the belief that efficient markets made any central bank intervention unnecessary. Following conventional market-liberal wisdom, central banks concentrated on targeting long-term price stability, leaving other policy objectives to other institutions. A significant part of the academic debate then focused on defining the correct inflation target (Woodford & Walsh, 2005). The crisis forced a rethink on the role of central bankers when suddenly having to intervene beyond setting interest rates to save the financial system from collapse and act as a natural *lender of last resort* within the banking system. Nobel Laureate Ben Bernanke has become famous as the Fed chief having learned the lessons from the 1930s in his academic career to quickly intervene after the Lehman collapse in 2008. Economists like Paul De Grauwe (2013) have argued that in a monetary union, central banks should also be the lender of last resort in the government bond markets to prevent countries from falling into self-fulfilling liquidity crises. In addition, negative interest rates and asset purchase programs (QE) have entered central banks' toolkit to counter typical post-crash deflationary pressures. It is worth noting that many of these crisis instruments have not been first proposed via economic theories but were the spontaneous practical reflex to acute moments of crisis. Academics still have contrasting views on unconventional monetary policies, most notably concerning the transmission of QE to the real economy. Nevertheless, in less than a decade, they have gone from being tools that no policymaker would ever consider to tools they feel comfortable with (Blinder et al., 2017).

### Reducing excess volatility – Moritz Schularick, Adair Turner et al.

A significant factor that contributed to the global financial boom then meltdown in 07/08 was the decades-long prevailing “philosophy of non-regulation” (Schularick & Zimmermann, 2018, p. 126). Proponents of the efficient market hypothesis (EMH) by Eugene Fama had long confided in the ability of financial market actors to adequately price in risks and anticipate fluctuation. In contrast to the predictions of the EMH, however, price signals in modern financial markets are often skewed by irrational exuberance and imperfect information. For instance, asset prices usually fluctuate much more than their underlying fundamental values would imply, making excess volatility and credit-driven leverage cycles a recurring phenomenon. To cope with systemic risks and to potentially cushion boom-bust cycles, the internationally agreed Basel III reforms in 2017 introduced macroprudential regulation in response to the financial crisis, including higher and more countercyclical capital ratios to go against excessive lending by banks. In order to further observe and prevent the build-up of excess risk, Schularick & Zimmermann (2018) offer further measures including leverage ratios and loan-to-deposit ratios as well as enhanced international cooperation on banking supervision and regulation.

### Reducing Inequality Via Ad Hoc Instruments

– Thomas Piketty, Branko Milanovic, et al.

Another main challenge of our time is identified through the growing level of inequality – a trend that has been increasing since the late 1970s. Until recently, research has very much focused on filling the statistical gaps with major contributions from Thomas Piketty, Branko Milanovic, Emmanuel Saez, and Gabriel Zucman. For Germany, scholars like Charlotte Bartels, Timm Bönke, Stefan Bach, Markus Grabka, and others, have started to better identify the causes of income and wealth inequality.<sup>7</sup>

7 For a deeper understanding of the development of inequality in Germany, see Bach et al. (2021) or Bartels & Schroeder (2020).



In the context of the market-liberal paradigm, inequality was seen as a transitory phenomenon that would automatically be solved by rising affluence (see Kuznets Curve). In this sense, inequality was a necessary by-product of a functioning market economy with more rapidly rising higher incomes serving as an incentive for those at the bottom to catch up. Tax cuts for the rich would thereby ‘trickle down’ and be the most effective way to increase prosperity. Since the GFC, these assumptions have been seriously challenged by new empirical evidence, while recent research has also revealed that inequality describes a U-shaped pattern, falling in the post-war period and rising in advanced countries from its low point in the 1970s (Piketty & Saez, 2014).

Any productive debate around how to reverse the inequality trend has been explicitly impeded for a long time due to a lack of statistical evidence. This may explain why much of this debate has so far revolved around individual primary instruments conceived to reduce inequality. These tools include taxing the top income earners, excessive wealth, and inheritances (Saez & Zucman, 2019; Atkinson, 2015). Milanovic (2019) counts on the expansion of stock-ownership plans for employees. Other instruments include sanctions against tax havens (Zucman et al., 2018) or taxing land to put a break on excessive housing price increases (Bach et al., 2021).

One of the, by now, most commonly accepted tools to stop income inequality from endlessly widening is to fix a **minimum wage** through legislation. During the heyday of market liberalism, most economists considered minimum wages to be harmful and a prime example of a well-intentioned policy with unintended, adverse consequences. For instance, in 1992, a survey of American Economic Association members found that 79% of respondents agreed that a minimum wage increases unemployment, which is as close

as it gets to a consensus view in surveys among economists on any major topic. Further, James M. Buchanan, who received the Nobel Prize in 1986 for his work on Public Choice Theory, wrote in the *Wall Street Journal* on April 25, 1996:

“The inverse relationship between quantity demanded and price is the core proposition in economic science, which embodies the presupposition that human choice behavior is sufficiently rational to allow predictions to be made. Just as no physicist would claim that ‘water runs uphill’, no self-respecting economist would claim that increases in the minimum wage increase employment. Such a claim, if seriously advanced, becomes equivalent to a denial that there is even minimal scientific content in economics, and that, in consequence, economists can do nothing but write as advocates for ideological interests. Fortunately, only a handful of economists are willing to throw over the teaching of two centuries; we have not yet become a bevy of camp-following whores.” (Buchanan, 1996)

Since then, the economics profession has profoundly changed its mainly negative view of the minimum wage, even though some economics textbooks are still defending the former mainstream thinking. Motivated by the seminal work of David Card and Alan B. Krueger (1994), for which David Card received the Nobel Prize in 2021, a large empirical literature on labor economics has shown that for the level of minimum wages we observe in most countries, there is barely any negative effect on employment. In addition, recent evidence indicates the significant, positive effects of minimum wages on productivity – good jobs are driving out bad jobs (Acemoglu, 2019). As we will see, this has also resulted in a fundamental change in policies and practical recommendations.

## New overall concepts of economic policy

**Green and Inclusive Growth** – Nick Stern, Ottmar Edenhofer *et al.*

Since the famous Club of Rome report on the limits to growth in 1972, there is debate on whether saving the environment is compatible with a still expanding economy. One departure from the unconditional belief in the benefits of growth has been the idea that economic growth is still possible and necessary but should become ‘green’. This idea assumes that a decoupling of economic activity from resource use and environmental degradation is possible, thanks essentially to new carbon-saving technologies.

In other words, the environmental and social impact of economic growth needs to be constrained. For this to be possible, the composition and form of economic output has to change. Prominent voices defending the idea of decoupling economic growth and resources are Nick Stern as well as Ottmar Edenhofer.

**Innovative State** – Mariana Mazzucato *et al.*

A core issue in redefining economic thinking is how to rethink the role of the state. Today, Mariana Mazzucato is predominantly associated with the idea that contrary to the times when governments best acted neutrally, the state should have a much more active role and steer the direction of growth and innovation, shaping markets and setting clear economic and social objectives. In this new scenario, the state is no longer playing the marginal role of fixing market failures. Since private actors in many fields lack a sufficiently broad and long-term horizon, Mariana Mazzucato imagines an entrepreneurial state that fosters innovation, while socializing not only the risks of new investments but also its benefits. Harvard

economist Dani Rodrik (2015) strongly supports this vision of an innovative state and suggests the creation of public venture funds that would redistribute the share of profits from the commercialization of new technologies to citizens in the form of a ‘social innovation’ dividend.

Mazzucato advocates for a ‘moon-shot’ approach by which governments not only support industries in which the country already possesses a comparative advantage but also set out new goals or missions which serve a greater public purpose. This starkly contrasts with the old paradigm, where innovation policy was mainly directed toward military and security spending. According to Mazzucato, the state should also target the greening of finance to decrease climate-related risks, invest more in the health sector and medical research, rethink competition policy and regulate digital value extraction. Such a dynamic would make economic growth more inclusive and socially oriented (Mazzucato, 2011, 2021b). The technological revolution of the 21<sup>st</sup> century requires this shift toward the innovative state, as much as the industrial revolution required the shift toward the welfare state to stabilize economic systems and bring diffused prosperity (Rodrik, 2015).

**End Hyper-Globalization** – Dani Rodrik *et al.*

Another pillar of such a paradigmatic shift in economic policy is a rethinking of globalization processes, since what the world has so far experienced is poorly managed integration and almost total neglect of the consideration of who will bear the costs and who will reap the benefits. Dani Rodrik has been the first and most prominent critic of market-liberal globalization. He strongly criticizes the narrative, claiming that economic integration was the only form globalization could take. According to Rodrik, the state, as a provider of public goods (from law enforcement to macroeconomic stabilization), is essential to globalization. This implies more than compensation programs

with social benefits for the losers. It should imply a radical change of direction to make globalization more equitable. To accomplish this, Rodrik suggests a rebalancing of power in three key areas: “*from capital and business to labor and the broader society*”, “*from global governance to national governance*”, and “*from areas where overall economic gains are small to where they are large*” (2017b, p. 2). Furthermore, new conceptualizations of state behavior that look at the state as more of a complex and mixed-motive actor—in line with new conceptualizations of the behavior of the individual—suggest that in the current phase of globalization, states' self-interests are better achieved when cooperating with other players rather than succeeding over them (Nye, 2002 in Kaul et al., 2016). In this sense, a state that is considerate of the rest of the world and does not pursue its narrow self-interests might well be the most suitable actor for changing the course of globalization, as Rodrik suggests.

### **Fiscal Policy for the Real Economy**

– Philippa Sigl-Glückner et al.

Evidence suggests that strict fiscal deficit or debt rules have pushed governments to seriously underinvest in decarbonization or unnecessarily depress economic activity. Instead of just improving technical rules (or standards), some economists have suggested a new fiscal paradigm in which governments and finance ministers should prioritize full employment and ecological transition. According to this view, fiscal sustainability, in the long run, fundamentally depends on the strength of the economy, which gives good reason to support the level of activity more strongly, even if this implies higher fiscal deficits and debt in the first instance. Sustainable full capacity utilization of the economy should thereby be the objective of fiscal policy instead of formal annual deficit rules. To raise the (measured) economic potential, governments should, for example, focus on raising participation rates or reducing (declared or undeclared) unemployment. A new institutional framework would also be needed. The initial reform steps required to move in this direction would be the adjustment of the cyclical component of the debt brake, the introduction of an investment fund for municipal investments, and the addition of a watchman indicator for rising interest costs (Sigl-Glückner et al., 2021). Similar proposals have been made with a particular view on the EU. This new paradigm would be based on trust between member states (Mathieu and Sterdyniak, 2021).

### **New Mandates and Helicopter Money**

– Adair Turner, Moritz Schularick, et al.

A fundamentally new understanding of the role of central banks starts from the diagnosis that monetary policy has a much broader impact on very different aspects of society than merely on prices – a previous core assumption of the market-liberal paradigm. In this context, Moritz Schularick (2022) argues that monetary policy will inevitably take on a new shape, where the so-called ‘divine coincidence’ theory by which a central bank can stabilize the ups and downs of the economy by keeping inflation at a constant rate, no longer holds. Large-scale asset purchases by central banks may indeed reinforce inequalities and, at the same time, invite more risky financial behaviors, thereby increasing financial instability. Consequently, new voices call for a much larger mandate for the central banks, including distributional issues, the environmental transition, and financial stability (Adam Tooze, 2022). This implies a considerable departure from the former concept of central banking.

Additional, more fundamental rethinking is reflected in what economists like Adair Turner (2013) have expressed in their support for the idea of ‘Helicopter Money’. In this concept, central banks would stabilize the economy not by buying assets mainly held by the banking sector (see above) but by directly financing public spending or distributing it to citizens. The advantage would be that this money would more likely be spent on real expenses as opposed to assets in the banking sector. A recently published IMF paper embraces this idea, observing that, in contrast to QE or negative interest rates, direct transfers from the central bank to households are more effective and equitable in achieving monetary policy objectives (Bützer, 2022). Many are joining the two-fold call for central banks to acknowledge the distributional effects its policy toolkit has had and to not cast aside its green objectives – especially in the context of the extraordinary inflation crisis shaped by the war in Ukraine and Covid-19. Katie Kedward (2022) states that the progress made toward the green transition represents the ultimate indicator of future macroeconomic and financial stability. Regarding the fight against inflation, a concerted action by different institutions could be an alternative to classical inflation control by the central banks via interest rates. This could include levy windfall taxes and targeted price regulations by governments, financial regulation, and a dual interest rate policy offering a preferential discount rate for green lending.

### **Taming Financialization** – *Daniela Gabor, Joseph Stiglitz et al.*

One prominent feature of market liberalism has been that increasingly larger parts of the real economy have been subjected to a particular financial logic. Accordingly, the size of the financial sector has steadily increased relative to the economy as a whole – a trend that has been occurring since the 1960s (Philippon, 2015). Yet it is questionable whether finance's increasing share of GDP is justified based on what it contributes to long-term economic progress. Critics claim that increased financialization has been achieved at the expense of investments in other, more vital, sectors of the economy. A smaller, more regulated financial sector might be better in terms of financial stability and overall economic performance. If more financial transactions create financial instability, less trade may be a stabilizing factor. A potential policy tool, in this sense, could be the Keynesian Financial Transaction Tax (FTT) which could be justified on the grounds that it would curtail transactions that have a negative social impact and contribute to system-wide instability (Stiglitz, 1989). Another approach would be to downsize shadow-banking. All in all, these approaches aim at systematically reducing the dominance of the financial sector over the real economy.

### **Good Jobs As A New Labor Market Guideline**

– *Dani Rodrik, Stephanie Stantcheva, David Card, Daron Acemoglu et al.*

The liberal concept of deregulating labor markets to create more jobs has been proven to have considerable side effects. The assumption was that lower productivity workers would more easily be employed at lower wages, allowing them to integrate into the labor market and progressively catch up. In reality, deregulated labor markets seem to offer ever more precarious, underpaid jobs, with low-paid workers often not finding a way out of precarity. New technologies and globalization may have contributed to the increase in low-paid jobs. Nevertheless, recent academic work has shown that this also depends on labor market conditions and policies. David Autor (2022) and his MIT colleagues claim that if innovation fails to create opportunity, it is because labor market institutions have yet to modernize laws, policies, norms, and organizations.

A new policy suggested by Dani Rodrik and Stefanie Stantcheva (2021) should focus activity directly on increasing the supply of *good* jobs. Such a strategy would require active labor market policies linked to employers, industrial and regional policies directed at creating better-paid jobs, innovation policies favoring labor-friendly technologies, and international economic policies to enforce labor and social standards. In a similar vein, Daron Acemoglu (2019) recognizes the utility of redistributing income from the rich to the poor to correct the unfair and unequal results of markets but also affirms that no society has ever achieved shared prosperity through redistribution policies alone. Policymakers, he says, should focus on creating “good, high-wage, and stable jobs.” These ideas can now also derive empirical support from the work of Nobel Prize winner David Card and colleagues, which debunked the old belief that higher minimum wages caused unemployment, thereby provoking a shift in the position of many mainstream economists and policymakers.

### **Avoiding Excess Income and Wealth Via a Highly Progressive Tax System** – *Emmanuel Saez, Gabriel Zucman, et al.*

As Emmanuel Saez and Gabriel Zucman point out, one primary reason for the rise in inequality in the US has been that market-liberal tax reforms had ended the post-war paradigm of highly progressive taxation. In the US, excessive inequalities during the interwar era made it possible to bring the top marginal federal income tax rate to around 70 percent (or higher at some point) between 1936 and 1980. After 1980, these top-income tax rates were considerably reduced to 37 percent in 2018.

A fundamental rethinking could therefore assist in a systematic return to highly progressive tax rates (Saez & Zucman, 2019). A very high and well-enforced tax rate on the wealthy would restore progressivity and put a break on the tax avoidance of wealthy households who can currently escape progressive income taxation by declaring lower income relative to their actual economic income.

## Systemic reforms and the redefinition of fundamental targets

The ideas presented thus far have in common the absence of more fundamental systemic renewal. The ideas that follow extend the approach in various ways.

### **Beyond GDP** – *Redefining the Objectives of Human Wellbeing*

Proponents of a ‘well-being economy’ take the debate about climate and the environment a step further and propose a redesign of the world’s economies in a way that ensures both human and ecological wellbeing. The basic idea is that an individual’s wellbeing is not mono-dimensional but formed by different elements (e.g., income, health, good work, healthy relationships, safety and security, and environmental quality, but also creativity and culture, a sense of belonging and political trust), something hardly measurable through a single metric. A ‘well-being economy’ is still envisaged as a mixed-economy system, but one that has a whole new set of values and objectives in line with the elements described above.

A less consequential translation of this idea is reflected in the attempts to redefine how to measure wellbeing beyond the classical GDP. Important academic contributions have been made by Joseph Stiglitz, Jean-Paul Fitoussi, and Amartya Sen in their 2009 report from the Commission on the Measurement of Economic Performance and Social Progress. Similar attempts have been proposed by Michael Jacobs for the OECD, as well as by Dennis Snower and Katharina Lima de Miranda using the “decoupling dashboard” and the SAGE approach (solidarity, agency, material gain, environmental sustainability).

### **Beyond Growth** – *Alternative Approaches*

In recent years, environmental economists have introduced the idea of ‘environmental limits’. The most influential idea in this regard is that of “planetary boundaries” (Rockström et al. 2009), which identifies nine different environmental dimensions – climate change, biodiversity loss, biogeochemical cycles, ocean acidification, land use, freshwater use, ozone depletion, atmospheric aerosols, and chemical pollution – whose tipping points, if reached, will lead to catastrophic changes. As discussed in the previous sub-chapter, there has been a lively debate concerning the links between climate change and economic growth for many years. One answer has been to aim for green growth, thereby making both compatible. Other scholars question the technical compatibility that leads to more fundamental approaches. Here too, there are at least two schools of thought to be differentiated.

#### → *De-Grow the Economy*

The fundamental environmental challenge has led some scholars to question if saving the planet is possible without noticeably shrinking consumption and economic activity as a whole. This degrowth approach is often expressed by those who fundamentally criticize the human-nature relationship under capitalist forms of production (e.g., eco-Marxists) or other movements which criticize the capitalist system for its obsession with GDP growth. The main argument from degrowth proponents is that an infinite expansion of the economy is incompatible with the bio-physical limits of our planet. Therefore the only solution lies in a material shrinkage of the economy. Inspired by the work of Georgescu-Roegen, modern advocates of degrowth include Giorgios Kallis (2017) and Jason Hickel (2020).



→ *Post-Growth Strategies – Or How to Avoid an Ex-Ante Choice on Growth*

An alternative approach that avoids the highly emotional debate around growth or degrowth is to consider that this discussion should not be at the forefront, and not only because it is nearly impossible to define what level of activity would be compatible. In this sense, a growing array of theorists and practitioners are arguing for “a-growth” (van den Bergh, 2011), “beyond growth” (Jacobs, 2020), or, more generally, “post-growth” (Jackson, 2021). These perspectives are not necessarily identical; some are closer to the inclusive green growth position, others to the degrowth one, but all are seeking an alternative to the old pro- and anti-growth debate. Instead, governments should first of all try to solve the urgent issues of reducing carbon emissions or saving biodiversity. If these outcomes are fulfilled with or without economic growth, will then be a consequence, not a premise. Kate Raworth (2017) describes this position as being “growth agnostic”: it does not take any a priori or single position on growth but intends to see what the outcome of any economic policies actually is. The indicators used to judge economic progress should be those which measure the achievement of the substantive goals, not the aggregate level of traded activity (GDP), which cannot accurately measure them.

**The Doughnut Economy – Kate Raworth**

Based on the famous concept of ‘planetary boundaries’ Kate Raworth conceptualized a ‘doughnut economy’, which provides a strong visual framework around the ‘safe space for humanity’. In other words, it depicts how we can still meet the essential needs of all (food, housing, healthcare, and other social services), within these planetary boundaries (2017). The visual model consists of an inner ring comprised of twelve social foundations (in line with the SDGs) and an outer ring creating the ecological ceiling within which nine planetary boundaries are identified. Kate Raworth does not only rethink our society's objectives, but questions the role of economics and the economist, the complexity of the individual and the system we are embedded in as against the simplicity of the models and agents we have relied upon, and the human-nature relationship. Raworth's model should therefore serve as a compass to steer the course of our economy, and society, toward a balanced coexistence between humankind and nature.

**Modern Monetary Theory – Stephanie Kelton et al.**

Since the overall market-liberal skepticism against the government has led to a severe lack of public investment, there is a whole new school of thought promoting the argument that, ultimately, the state should be enabled to finance any investment as long as it serves society, and does not lead to inflation. This has energized some scholars to re-discover Abba Lerner's concept of ‘functional finance.’ This idea proposes that governments should eliminate unemployment and inflation by adjusting total spending as needed and achieving the optimal rate of interest (aligned with the desired level of investment). This would require them to adjust public holdings of money and government bonds and control the quantity of money (print or destroy), as required (Lerner, 1943).

Along similar lines, supporters of the Modern Monetary Theory claim that deficits are not inherently bad and can easily be fixed given governments' capability of issuing currency, and the option to borrow as much as needed from the central bank to achieve their macroeconomic goals of full employment and prosperity. In other words, governments do not need to adhere to the same budgeting rules as households, since they can create their own money. Prominent contemporary supporters of this approach include Stephanie Kelton (2020) and Pavlina Tcherneva (2017).

**A New Bretton Woods System –**

*Joe Stiglitz, Daniela Gabor, Kevin Gallagher, Richard Kozul-Wright.*

One of the core features of the post-war paradigm has been the international institutional implementation of the Bretton Woods System. It introduced fixed but adjustable exchange rates while installing powerful institutions like the IMF and the World Bank to avoid international instabilities. Economists like Stiglitz (2010) have discussed the need for a new global financial architecture, including a renewed version of the Bretton Woods System with an international reserve currency and capable of managing the procyclicality of international capital flows. This has also been discussed in a recent book co-authored by Kevin Gallagher and Richard Kozul-Wright. Financialization expert Daniela Gabor has even conceptualized a “green macro-financial regime” with a “big green state” coordinating investments, disciplining green industry winners, a public green taxono-

my, capital controls, and close monetary and fiscal coordination with green public investment and credit policy (2022). Also, economists like Isabella Weber have favoured to regulate highly speculative gas and other raw material markets, especially in crisis and war times.

**Universal Welfare and a Redefinition of Work-Life Balance** – *Pavlina Tcherneva, Marcel Fratzscher<sup>8</sup> et al.*

With the increase in precarious jobs undermining the credibility of governments, the search for wider-reaching solutions has led to a number of more fundamental proposals. Certainly, the most prominent idea among these new concepts and gaining growing popularity among academics, citizens, and policymakers, is the possible introduction of a Universal Basic Income (UBI). The intention would be to provide a level of economic security to everyone, consisting of unconditional, regular cash payments distributed by a political community to its citizens (Haagh, 2019; van Parijs, 1992). A possible way of financing the UBI could be the creation of a sovereign wealth fund, investing in globally diversified portfolios. The supplementary income generated through the fund could benefit the population as basic income or basic wealth. Alternatively, wealth could be redistributed through a basic inheritance for all young adults, financed by an increase in inheritance tax or a wealth tax/levy on high wealth (Bach et al., 2021).

In a similar sense, proponents of the idea that governments should offer Universal Basic Services (UBS) to everyone believe that the principle of collective service provision should be expanded beyond healthcare and education to include life's everyday essentials (e.g., housing, transport, childcare). Its proponents claim this new approach to policy could help address many of today's challenges, from inequality to environmental degradation (Coote & Percy, 2020).

A third, more fundamental reform to minimize social risks would be the introduction of Job Guarantee programs. Modern monetary theorists see such programs as not just easy to finance through government spending but also an effective tool for stabilizing the economy and directing money toward human capital (Tcherneva, 2020). As a possible complement to a job guarantee, some strands of literature propose a job-sharing mechanism, where two (or more) people share a position usually covered by one person working full time. Because the parties typically share the salary, job-sharing mechanisms constitute a smaller financial burden than full-on job guarantees (Sekulova et al., 2013).

All these ideas could serve as a supplement to, rather than a substitute for, the existing welfare state.

Another serious side-effect of decades of efficiency-oriented market-liberal policies has been the growing number of people suffering from extremely dense working conditions. This has led to a reconsideration of the work-life balance. Proponents across different schools of thought have pointed to shorter working hours as something that could significantly contribute to addressing many of today's challenges – from health and wellbeing to climate change, social cohesion, and gender imbalances. Recent research shows that advanced economies have long reached levels of productivity that would allow them to enter an “age of leisure and abundance” – as predicted by John Maynard Keynes back in 1930 – and that the reasons they have not done so are mainly of a socio-political nature. According to some researchers, a mix of reduced income inequality, coordinated wage bargaining, and highly developed public services could contribute to achieving shorter working hours without endangering the firm's competitiveness or economic progress (Behringer et al., 2022).

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<sup>8</sup> The **Deutsche Institut für Wirtschaftsforschung** (DIW) launched in 2020 the first long-term study on unconditional basic income in Germany.

## A Preliminary Summary and Evaluation of the New Schools of Thought

The various schools of thought and new ideas from innovative thinkers described in the preceding paragraphs most certainly do not represent the totality of creativity circulating the contemporary economic space. The evaluation still clearly shows a deep analysis of what has gone wrong in all major policymaking areas. The evidence may be more or less clear-cut. The diagnosis seems to be well-established in most cases. Also, new proposals are circulating in all of the areas mentioned. However, some may be less developed in the more contemporary fields of research, like inequality, but more advanced when it comes to financial market instabilities, for example.

The concepts clearly do not add up to a single coherent model of what a new paradigm might become. This implies that there are tensions between different schools where proponents of more systemic changes complain about the lack of radicalness of others, while others judge overly radical approaches as unhelpful when convincing a larger group of people.

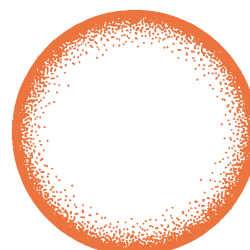
In this report, the proposed categorization presents the new ideas on a continuum beginning with the reforms that could be applied within the current setting, in what could be seen as a fundamental refresh of the existing toolbox, to new overall concepts of economic policy that address climate change, inequality and other major challenges, through to proposals that advocate for a more fundamental redefinition of societal objectives or systemic change. Most of these ideas do not contradict each other; they rather diverge around the speed or magnitude of change. The arguments developed in response to the environmental crisis are a good example; the specific initiatives addressing the climate issue could

very well fit into a broader redefinition of economic and societal goals. For example, a modern climate policy would need to be accompanied by reforms in the labor market and increased public spending on infrastructure. The umbrella term post-growth is taking shape specifically because there was a need to unify different positions into one strategically and politically helpful debate that, where possible, is free from ideological constraints. In the same way, ad hoc instruments for reducing inequality may be as essential to achieving that goal as longer-term reformations of the labor market toward the creation of ‘good jobs’ and extended welfare states.

Historically, the market-liberal paradigm has been an accumulation of sometimes contradictory models, for example, between supply-side economics and monetarism. Nevertheless, there have been some guiding principles, like reducing the role of the state or deregulating labor markets, something all of these diverging adherents had agreed upon. In the same way, the theories mentioned above, the proposals, and different schools of thought might well unify into a certain new economic thinking and a shared rejection of the preceding, intensely market-driven paradigm. In a way, they do already. In some senses, the different approaches might well be seen as forming part of such a new paradigm – with a rebalancing of power from business to public interests, a renewed role for the state, and economic objectives set to function for economic as well as social and environmental wellbeing.

As described in our introduction, even if they have already ripened, new ideas form an important and necessary basis for a paradigm shift to something new. But intellectual progress is not enough to change a paradigm. The next important and necessary element is the ecosystem that helps more or less directly in the promotion of a new paradigm.

We will now proceed with an analysis of the current state of this ecosystem and the indirect actors.







## PART 2. WHO IS ACTIVE? A COMPREHENSIVE MAPPING OF PARADIGM CHANGE ACTORS

## 2.1 A Rapidly Growing Ecosystem – The International Context

To assess the current state of the shifting paradigm in practice, we will now evaluate who is more or less actively contributing to the shift. We will begin with a brief overview of the international origins of new economic thinking in the US and UK and then focus on Germany – probably the country most influential in the definition of European policymaking on the continent. We deem Germany critical to the paradigm shift since the German economic tradition of ordoliberalism has decisively shaped European institutions (Bofinger, 2016).

Compared to conventional mappings, this chapter provides an overview in a broader sense, including actors who contribute explicitly or in an indirect way. As mentioned before, the basic assumption of this study is that paradigm shifts are driven not only by intellectual innovation but also by a range of factors. This includes the role of institutions or individuals contributing to new thinking and a new paradigm by, for example, bringing together innovative academics or academics and policymakers or by promoting the transformation of new ideas into practical policies.

In the aftermath of the GFC crisis in 2007/08, people questioned the old paradigm, and initiatives to find new solutions appeared earliest in the US

and UK. The reason for this, understandably, lies in the significantly striking damages left behind by the market-liberal paradigm, given the more vigorous application of its deregulation agenda, first by Ronald Reagan and then Margaret Thatcher in the 1980s.

In 2010, the New York-based Institute for New Economic Thinking (INET) was launched to promote an alternative to mainstream economic thinking supported by a wide range of prominent economists, including Nobel laureates Joe Stiglitz and George Akerlof. INET's annual conference in 2012 was held in Berlin entitled, *Paradigm lost – Rethinking Economics and Politics*. New actors, including the research institute **Washington Center for Equitable Growth** and the member-based organization platform **New Economy Coalition** were set up at around the same time in the US. Recent additions include the **Economics for Inclusive Prosperity** (EfIP) launched by Dani Rodrik and others. The GFC also led to more activist initiatives, such as the *Occupy Wall Street* movement that started in 2011 but lost momentum during the years following.

In the UK, powerhouses of progressive economic thinking such as the **New Economics Founda-**

tion (NEF) and the **Institute for Public Policy Research** (IPPR) were founded in the late 1980s at a time when the market-liberal paradigm was about to establish itself as the dominant policy approach, and more institutions in the UK than anywhere else followed. In 2016, Michael Jacobs and Mariana Mazzucato brought together leading new thinkers to publish the influential *Rethinking Capitalism* (Jacobs & Mazzucato, 2016). In 2018, the *Commission on Economic Justice*, assembled by the IPPR and composed of representatives from UK society (among them the Archbishop of Canterbury), produced a report on economic policies for a post-Brexit Britain entitled *Prosperity and Justice: A Plan for the New Economy* (Kibasi et al., 2018).

Influential individuals inside conventional institutions in the UK include Andrew Haldane, the former Bank of England chief economist who is now leading the Royal Society of the Arts and has recently been calling for ‘community capitalism’, meaning an economy that better addresses regional disparities or Laurie Laybourn-Langton, who is serving as Visiting Fellow at the Sustainability Accelerator Department of Chatham House and recently set up the network *Cohort 2040* – an IPPR project aimed at equipping the next generation of politicians and leaders to handle the unique challenges of the mid-century based on the current trajectory of global warming. In addition, an informal network in the UK Government Economic Service was formed in 2016 under the title ‘Exploring Economics’ to facilitate the understanding of economics by non-economist British civil servants and to raise awareness about the plurality of available theories and policy approaches.

New institutions have also appeared inside international organizations. The OECD in 2012 launched its unit called New Approaches for Economic Challenges (NAEC) directly attached to the then-Secretary General, Angel Gurría. This unit is very much focused on a fundamental rethinking of economic policies, e.g., on systems change. This has been repeatedly questioned by conventional actors inside the OECD. The departure of SG Gurría was followed by some sort of a down-sizing with NAEC being integrated into the Economics Department.

There have also been attempts to push for new approaches inside the **European Commission**. The research projects already completed include *Project CRISIS* and *Forecasting Financial Crises* with the participation of INET Oxford and *Adaptation to a New Economic Reality* with the participation of the NEF.

There have also been new actors in other European countries, such as **Our New Economy** in the Netherlands, **ECCO Climate** in Italy, or the **Momentum Institute** in Austria. In France, there have been institutions promoting alternatives to the earlier neoclassical economic thinking. **Alternatives Economiques** was started as a popular revue in the early 1980s. In 2017, the **World Inequality Lab** was launched in Paris by Thomas Piketty and colleagues. Innovative research has also been developed in conventional research institutes like the Paris-based **OFCE** where climate and energy work has been integrated into the leading macroeconomic department for the first time. Think tanks such as Terra Nova, the Shift Project, and the Veblen Institute (and perhaps more activist groups such as Les Économistes Atterrés) are also essential contributors to the French debate.

All in all, we have identified nearly 30 institutions in continental Europe that, in one way or another, promote alternatives to mainstream economic thinking. We cannot include the actors in the Global South in any detailed, analytical way, but we want to emphasize the critical importance of interlinking progressive economic thought across continents. Economists from these regions remain largely under-represented in top scientific, economic journals (Greenspon & Rodrik, 2021). Some of the actors of new economic thinking, such as the Network for Pluralist Economics and the network to **diversify and decolonize economics (D-Econ)**, are working toward elevating their voices. There are a number of organizations working on specific challenges like climate protection or social justice without an overall paradigmatic approach. We restricted our analysis to those who do the latter.

## Box 1

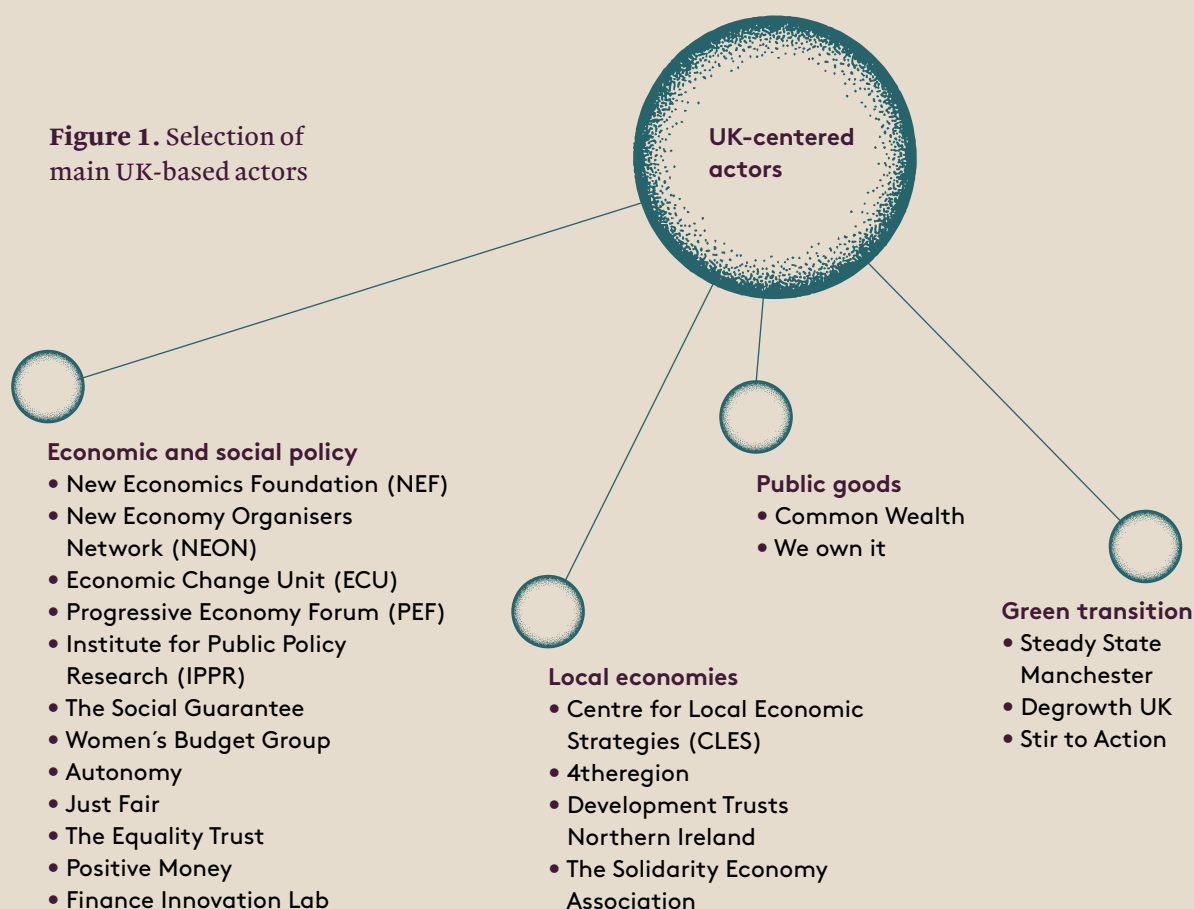
### The UK Case—Early Starters In New Economic Thinking

Today, the UK landscape is definitely much more sophisticated than the continental European one. A mapping report prepared by Demos Helsinki in 2021 locates around one-fourth of new economy actors within Europe in the UK. In recent years, the UK landscape seems to have grown further, with the Economic Change Unit (ECU) providing strategic coordination and movement-building support to new economic policy and advocacy actors, and the Progressive Economy Forum (PEF) coordinates academic economists around a new macro-economic agenda. The list below highlights some of the thematic areas of mostly advocacy-focused,

UK-based actors who are in some way contributing to the overall paradigm shift through specific policy proposals. The list draws on previous mappings of the UK landscape by Demos Helsinki (2022) and Laybourn-Langton & Jacobs (2017).

According to a recent evaluation by Sarah-Jayne Clifton at the ECU, the ecosystem of system changers has succeeded in developing a detailed and comprehensive set of policy proposals, including a response to new emerging challenges such as the current cost of living crisis. The UK new economy policy and advocacy ecosystem is also increasingly able to shape media debates on economic issues in a reactive way, owing to the strong communications functions within many organizations, and the overall communications support to the ecosystem provided by the New Economy Organisers Network (NEON).

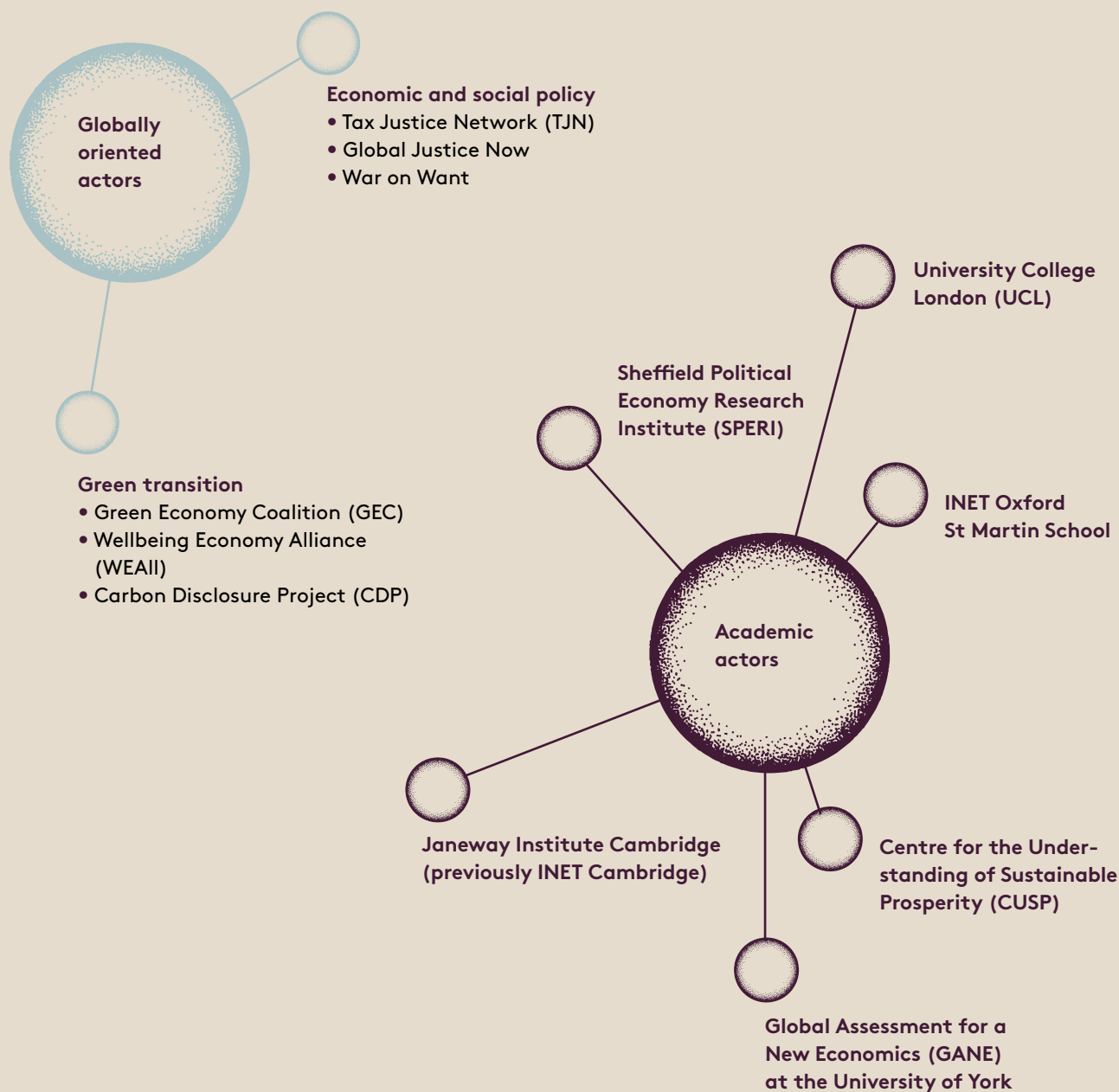
**Figure 1.** Selection of main UK-based actors



However, the transmission of new economy ideas and proposals into mainstream political debates and practical policymaking remains quite limited. Despite its high capacity for policy analysis, the community seems to have had a low impact on policy so far, due to a lack of deep power analysis, a lack of sustained focus on priority proposals, and a relative absence of skills and resources within organizations to develop and deliver strategies and programmes of work that build popular and political support for new economy ideas. This means that most new economy ideas currently remain trapped within the ‘bubble’ of the new economy/systems change ecosystem. Organizations also

face strong pressure to differentiate themselves, because of pressures from the funding models, which hinder collaboration around common priorities and proposals. In addition, the legitimacy and impact of the ecosystem is further hindered by its relatively weak grassroots base and lack of connection to the communities most severely impacted by the current economic model.

This led to the conclusion that the UK new economy movement may need to put a stronger emphasis on the development and implementation of longer-term influencing strategies, authenticity, and political power, to increase its effectiveness.



## 2.2 Germany Has Emerged as a Crucial Part of the New Landscape

As described above and based on our understanding of the complexity of paradigm shifts, we will distinguish between different kinds of contributions to the changing paradigm that range from those who explicitly aim to contribute to an overall new understanding, to innovators inside conventional institutions and individual researchers working on major content issues outside an institutional paradigm change setting.

### Core Paradigm Shifting Actors in Germany

In Germany, the drive toward new economic thinking has started with a noticeable lag when compared to the US and UK. Nevertheless, in recent years, the number of actors has rapidly increased. One of the first institutions strongly questioning the orthodoxy in economic thinking was the Pluralist Network, launched in 2007 and initially pushing for pluralism in teaching. Since the GFC, numerous German academics have been supported by international funders like INET, to advance their innovative work. However, few organizations emerged to bring forward new thinking. The **Forum New Economy** has been the first organization in Germany explicitly designed to promote work on an overall new paradigm. The exploratory phase started late in 2016 after the Brexit vote and the election of Donald Trump in the US. Both these events provided strong indications of the collapsing paradigm among Western democracies. It officially started as a forum in late October 2019. The core assumption of its activities is that there are key challenges – like climate, inequality, or globalization – that need a

new, shared leitmotif derived from the strong interdependencies between them. In practice, this requires bringing together central actors to cover the different areas of policymaking. It also implies an approach that explicitly introduces new ideas into conventional institutions that operate predominantly under the old or new paradigm.

Another key actor currently promoting a paradigm shift is **The New Institute** (TNI) based in Hamburg, which focuses largely on more fundamental and theoretical work, like values. The TNI was launched in 2020. In 2022, it instigated the New Paradigm Initiative that started with a number of academic workshops considering what a new paradigm could look like. In Table 2 below, we also count INET, YSI and NAEC as important players in Germany since all have actively supported innovative work in this country.

Some of the core actors **focus on specific challenges**. These include newly launched institutions like Dezernat Zukunft (fiscal policy focus) and Bürgerbewegung Finanzwende (banks and financial markets). Another more specialized organization is the ZOE Institute (focused on EU advocacy). These actors do not cover all of the fundamental areas of the paradigm, but they definitely work to change the paradigm in their areas. Beyond the five key actors there are around sixteen additional institutions. Most of them have also become influential in their field with Dezernat Zukunft having contributed among others to fiscal policy concepts that have found their way into the federal coalition treaty late in 2021.

In addition to this, there is a higher number of institutions that focus on, for example, climate policies, and only implicitly contribute to a sectoral renewal of economic thinking. In the following analysis we will focus on the core actors mentioned above.

## Actors Inside Conventional Institutions In Germany

In addition to the key actors, we identified a tentative list of innovative minds working inside more conventional institutions. These include the research units working on inequality at the German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung: DIW) Berlin that have considerably contributed to a better understanding of the extent and drivers of inequality in Germany. There are also individual actors inside the federal administration. All in all, we have identified approximately 20 (leading) individuals that are working within conventional institutions and more or less actively contribute to an overall paradigmatic shift.

Finally, assuming that paradigm shifts are driven by prominent individuals (as with Milton Friedman and the market-liberal shift), we have identified some examples of primarily academics that currently play an important role in advancing non-mainstream economic thinking in Germany. Among them, is Jens Südekum, who has worked on innovative regional policies in the context of socio-economic disruptions (globalization, technologies, climate policies), while regularly advising federal or regional governments and businesses in Germany. Also, individuals like Moritz Schularick, Tom Krebs, and Dalia Marin have contributed to new economic thinking.

It may be difficult to exactly measure the extent to which these individuals are already exerting an influence on practical policymaking in Germany. However, there is ample anecdotal evidence, as will be demonstrated in Chapters 3 and 4. There are also some approximate indications of a growing awareness toward new economic thinkers within the German public debate (Box 2 below).

**Table 2.** Selected Actors Promoting New Economic Thinking In Germany<sup>9</sup>

|  |
|--|
| Forum New Economy  |
| The New Institute  |
| ZOE Institute for Future-fit Economies                   |
| Dezernat Zukunft   |
| Bürgerbewegung Finanzwende                               |
| Global Solutions Initiative                              |
| Global Climate Forum                                     |
| New Approaches to Economic Challenges (NAEC) at the OECD |
| Institute for New Economic Thinking (INET)               |
| Young Scholars Initiative (YSI) at INET                  |
| Netzwerk Plurale Ökonomik                                |
| Next Economy Lab (NELA)                                  |
| Realutopien/Reinventing Society                          |
| Fiscal Future  |
| d\carb future economy forum                              |
| World Inequality Lab (at Paris School of Economics)      |
| MacroFinance and MacroHistory Lab, University of Bonn    |
| Konzeptwerk Neue Ökonomie                                |
| Wellbeing Economy Alliance (WEAll)                       |

<sup>9</sup> Including actors based abroad but with influence in Germany.



## Box 2

### On The Public Impact Of New Economic Thinkers In Germany

The presence of innovative economists in the public policy discourse may be an important indicator for the influence of new economic thinking. To tentatively assess whether, in recent years, new thinkers have been able to extend their representation in the public discourse, we have evaluated data from the Frankfurter Allgemeine Zeitung (FAZ) economist ranking, one of the leading German newspapers that annually assesses the public impact of German, Austrian and Swiss economists. The ranking distinguishes between the categories ‘science’ (publications and citations in academic journals) and ‘public’ (mentions in politics and media). In 2019, it was extended, adding the category ‘social media’. To be featured in the ranking as one of Germany’s most important economists, a researcher must have resonance in at least two of the fields (FAZ, 2021).

Our analysis covers the rankings from 2014 to 2021. For each of these years, we have identified those on the lists who might be considered to represent new economic thinking in one way or another, and then compared their rankings over time. For analytical purposes, the classification was tailored to capture the broader spectrum of non-conventional economics on the one side, and (neoclassical) mainstream economics on the other. Those economists that reflect mainstream as well as non-orthodox concepts have been assigned to a third category but included in the total of new thinkers in the ranking.

Throughout all years, the data pool focuses on leading German media outlets like Welt, Sueddeutsche Zeitung, FAZ, Zeit und Spiegel as well as major academic publishers, including ZBW and Elsevier. However, there have been slight methodological adaptations over time. For example, mentions in social media and in the digital presence of news outlets were added to the data pool.

Overall, our analysis shows that the development of the ranking positions is very dynamic. With a few exceptions, individual economists fluctuate significantly in the ranking over time. This applies equally to mainstream economists and new economic thinkers. Nevertheless, since 2014, there

is evidence of an increase in the number of economists who can be considered to be non-orthodox. While in 2014 less than 30 ‘new thinkers’ were listed in the top 100, this number has risen to over 40 since 2019, and has remained consistently high since then. However, the number of new economic thinkers in the top ten has stagnated. Interestingly, their scores are high in the category ‘public’, i.e., in politics and (social) media. This is not surprising considering that, to date, many economic journals still apply publication criteria that favor mainstream analyses over newer ones.

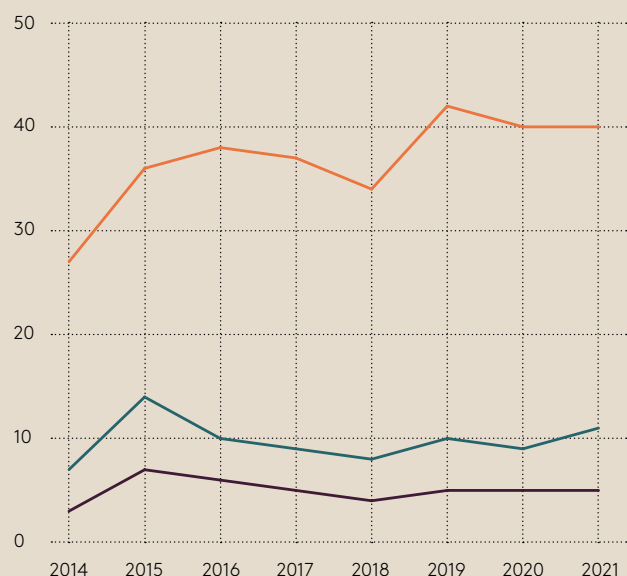
Our analysis is supported by the findings of a recent study that comes to a similar conclusion: “... *more recent developments in the FAZ ranking indicate a trend in favor of pragmatic Keynesian and other critical economists.... Examples include Jens Südekum, Sebastian Dullien, Claudia Kemfert and Achim Truger, who substantially improved their position in the FAZ ranking 2020 ....*” (Kapeller et al., 2021, 19).

At the same time, the stagnation in the top ten group corroborates the diagnosis of a non-linear and complex paradigm shift that is far from being accomplished. It may also reflect the rigidities and self-reliance of a dominant paradigm established institutionally over a couple of decades.

**Figure 2. New Thinkers On The Rise In The German Public Sphere**

— Total  
— Of which top 10  
— Of which top 20

**Number of economists standing for new thinking in the FAZ Top Economists Ranking**





## 2.3 Evaluation of a Landscape — Different Approaches, Strategies and Theories of Change

Beyond the institutional distinctions regarding their prior objectives, there are various ways to differentiate between the actors mentioned above. In the following section, we will focus on the first group of core actors and try to systematically identify such distinctions ultimately based on different theories of change. Again, the history of paradigm shifts has shown that such shifts are usually the result of a longer-term process where institutions act in parallel at different levels with different strategies or theories of change. These may then add up in a synergetic way that contributes to a societal change of thinking.

Comparing key actors engaged in new economic thinking quickly leads to the identification of some main differences in strategy. These are mainly reflected by two sets of criteria that may or may not reflect differences in the respective theory of change. The distinction can be made, on the one hand, regarding the extent to which, the corresponding institutions try to directly impact (daily) policies or develop new ideas in a more fundamental way. On the other, actors differ in the way in which they try to convene people in a more open-minded setting or concentrate their activities on activist interventions following a more or less defined agenda.

Indeed, the first criterion reflects the general methodological approach regarding the target groups and dynamics that each organization is working with. One extreme, in this sense, could be to seek a dialogue with those who (initially) might not share the goals in detail in order to progressively spread a new kind of thinking (convening). The idea behind this approach might reflect that paradigm shifts always need a broad coalition of

followers and contributors, including those who might have been part of the old paradigm in former times or political parties that would not spontaneously support parts of the new paradigm (like taxing the rich). At the other extreme, institutions might follow an activist approach that seeks to have an influence by exercising pressure on political actors or others.

In the second distinction we will apply, actors may focus strongly on intellectual groundwork that aims to replace the market-liberal mindset but does not in the extreme case follow any particular epistemological interest. These institutions follow a rather open-minded, more academic research process, trying to answer scientific questions that could form part(s) of a new paradigm. To simplify, we call this ‘content generation’. The other extreme, according to this criterion, would be institutions that (only) seek to shape the (day-to-day) economic policy discussion (‘policy advisory’ or ‘advocacy’).

We use a continuous evaluation system, where institutions are generally placed between the two extreme cases based on the relative importance that initially, both content generation and policy advisory, holds for each of the organizations. This is by nature difficult to measure precisely and may in its details be debated. We nevertheless consider that this exercise helps to get a sense of what are the general strategic priorities of today's ecosystem of new thinking in Germany. The same is true for the second criterion. Here too, the exact quantitative evaluation may be questionable. Nevertheless, it is possible to make a clear distinction between differing, relative degrees of strategic prioritization.

Figure 3 (below) illustrates the distinction between conveners and activists on the vertical axis, while on the horizontal axis, distinguishes between the relative importance of content generation and policy advisory.<sup>10</sup> The institutions include those cited in Table 2 plus some others which are among the core actors. All are spotted without naming them explicitly. The aim here is not to discuss each institution's strategy but give an idea of the respective preferences in the field.

An example of an institution that focuses more on content generation is INET. The same is true of the nature of university departments when providing innovative research. Notable examples are the research or data centres initiated by Thomas Piketty and Moritz Schularick, specializing in the collection of important data regarding inequalities and debt. On the other side of the spectrum, an institution clearly aiming for an activist approach, with a (more or less) concrete policy agenda, is Econ4 Future. Finanzwende has a moderately activist approach, relying on campaigns based on highly respected researchers and with concrete policy objectives.

As no institution occupies the extremes, the positioning is always a relative one. An organization that focuses more on convening than on activism is placed on the left side, while one that first of all wants to advise policy makers while also generating basic content, is placed in the upper left part of the graph. Overall interpretation of the graph highlights that, institutions on the top right are very much focused on concrete policy advice but have an activist approach which is the case for most of the key actors we have identified to date. On the opposite side, few are placed on the top left and the bottom right.

This exercise proved to be more than theoretical. It may appear logical that institutions doing groundwork do not follow an activist approach; there is thus only one institution at the bottom right. On the other side, it may be telling that most

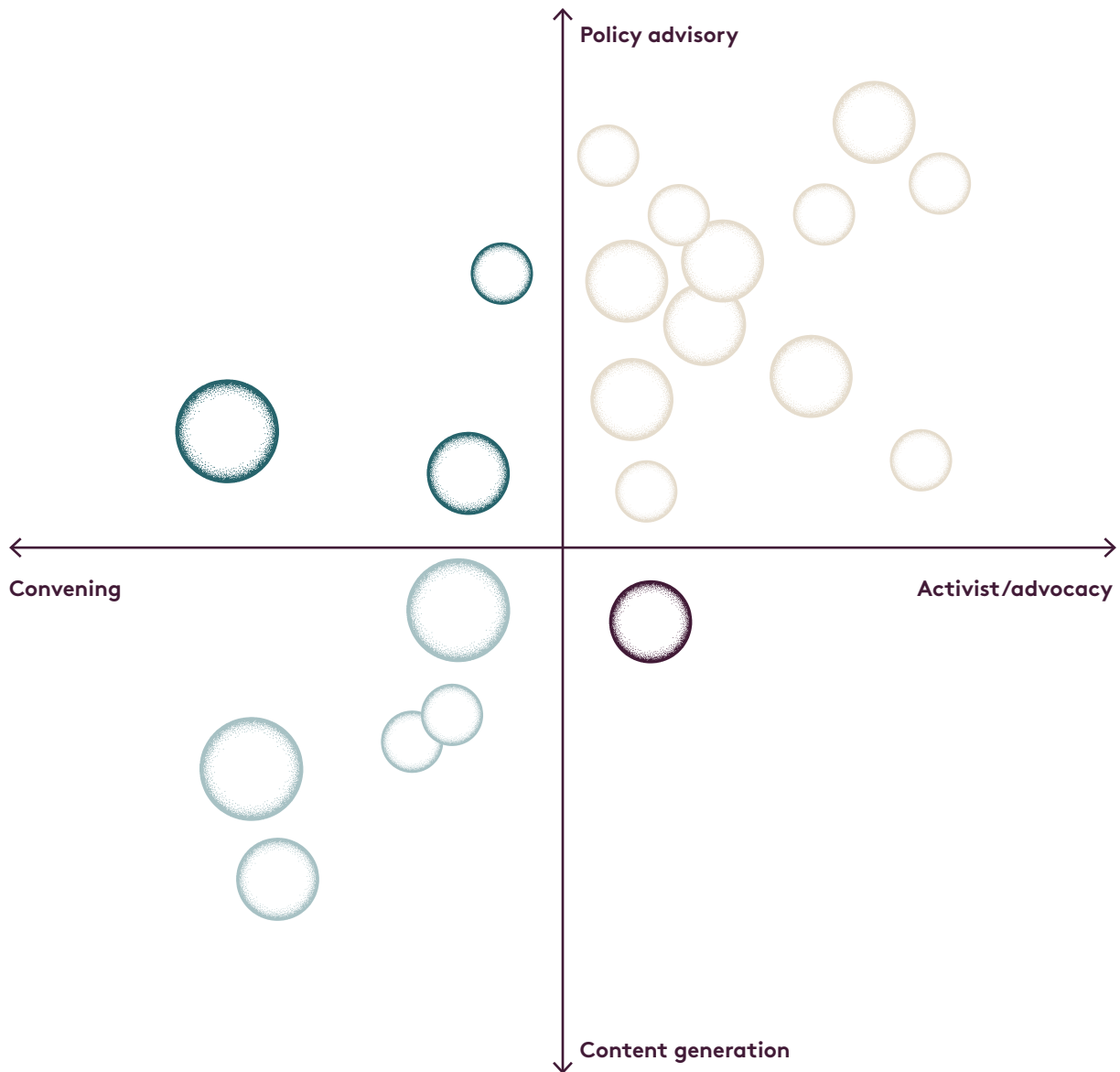
institutions that concentrate on policy advice follow an activist strategy instead of a convening one. Only a limited number of actors aiming to inform current policymaking do focus strongly on convening people beyond the inner circle of like-minded stakeholders.

Mapping the German landscape has so far identified a multifaceted group, which has been expanding in recent years. This raises the question, whether these institutions are currently contributing to a noticeable shift in a productive way. Some differences may not reflect ideological divergences but rather, respective target audiences. Regarding climate issues – as a part of a broader paradigmatic challenge – a subset of actors is focused more on the macroeconomics of climate change (mostly think tanks such as ZOE Institute, The New Institute, and Konzeptionswerk Neue Ökonomie). Others seek to influence individual and firm-level consumption or production patterns (mostly companies, co-operatives, and some think tanks, e.g., Zentrum für Realutopien, and Doughnut Economics Action Lab).

Overall, the German ecosystem of new economic thinking has noticeably caught up with the US and the UK in recent years. There is clearly a growing perception of the need to develop a new paradigm. The participation of a broad range of high-level representatives from different boards in the bi-annual meetings of the Forum New Economy is a clear indication that the attempt to renew economic policies is taken seriously, even outside of the core actors.

To better understand the extent to which the new economic thinking and the activities of various actors have in practice already shifted the guidelines of practical policy, it may be helpful to systematically review the evolution of the main positions of internationally powerful institutions when compared to the era of market-liberalism. This will be the focus of the next chapter.

10 In the figure, organisations contained in table 2 are depicted plus a further number of institutions acting in the field.

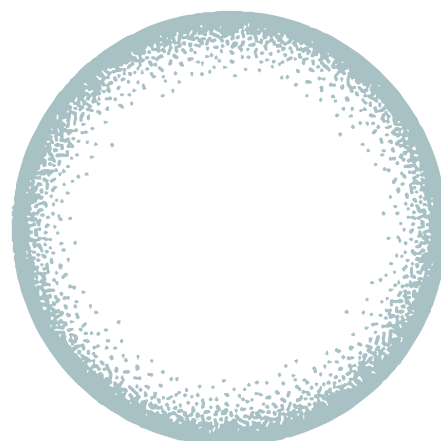
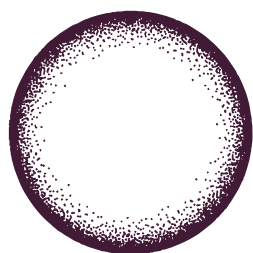


**Figure 3.** Main Strategic Differences Between Paradigmatic Actors In Germany

**How to read the graph**

**Horizontal scale:** the criterion Convening reflects the degree to which an institution wants to bring new thinkers and open-minded people from different perspectives and angles together; at the opposite end, there is a clear agenda pursued by the respective actors.

**Vertical scale:** the criterion Content generation reflects the search for new answers in a more academic way that is not immediately directed toward current policy; at the opposite end, research is produced with the intent to communicate policy advice for daily policymaking.



## PART 3.

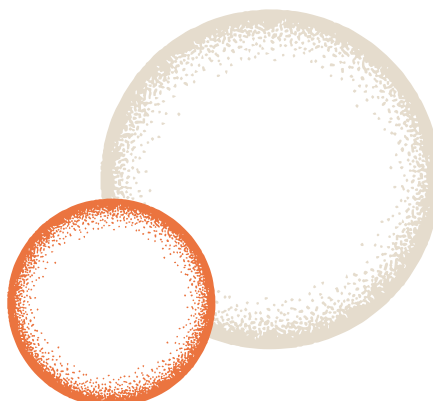
# PARADIGM SHIFTS IN MAJOR INTERNATIONAL INSTITUTIONS

So far, in the previous chapters, we have described, which new schools of thought have emerged as a consequence of the collapse of the market-liberal paradigm, and which main drivers of change in socio-economic thinking can be identified. A gain in momentum, though, implies that new thinking has found its way into major institutions and decision-making bodies. This chapter systematically examines the extent to which a paradigm shift has already occurred in several powerful international institutions in recent years. We consider each institution individually and compare its defining positions held during the high times of the market-liberal paradigm (around the mid-1990s) against its recent position on the same topics.

Analyzing these changes will allow us to evaluate better where in the paradigm shift we currently are. Indeed, it is sometimes questionable whether a paradigmatic change is happening at all, given the apparent rigidity of the positions held in significant policy fields. Suppose we consider the lack of progress in fighting climate change or inequality, the recent rollbacks due to the return of

inflation, and the difficulties of the Biden administration in seeing through major investment or social packages (optimistically compared with the 1930s 'New Deal'). In that case, we might have to acknowledge that significant delays are in progress.

We initially identified the main critical challenges and positions that these institutions are generally identified with. For example, we identified the International Monetary Fund's position on capital controls as one of its central ideological positions. The same goes for the labor market position of the OECD or the fiscal policy approaches applied by the US and UK Treasuries or the EU Commission.



## 3.1 Shifting Positions in International Institutions—A Comparison Over Time

We introduce the results institution by institution in the overview table that follows. For each institution and topic, the formerly dominant position –

primarily during the 1990s – is presented in the left column, while the more recent one is shown in the right column.

**Table 3:** How Major Positions of Leading Organizations Have Shifted

| High-Times of<br>Market-Liberalism—1990s | Toward a<br>New Paradigm—2020s |
|--|--------------------------------|
|--|--------------------------------|

### International Monetary Fund (IMF)

From free capital flows for all ... ○ ————— ● to managed capital flows.

**Because free financial markets were considered to be most efficient**, since the 1980s the IMF had pushed for capital account liberalization, even discussing in 1997 its incorporation into the Fund's Articles of Agreement as general policy advice, which would have allowed conditionality on capital account restrictions in IMF programs.<sup>11</sup>

**Because capital inflows generate negative externalities on financial stability by excessive surges and sudden stops—as experienced by many emerging markets during large-scale crises like Asia 97/98**, the fund gradually shifted to a new 'Institutional View', officially adopted in 2012, stating that capital flow management measures may be necessary in times of crisis.<sup>12</sup> A revised version in 2022 also allows the use of pre-emptive capital flow management measures for macroprudential reasons.

From austerity ... ○ ————— ● to sustainable public finance.

**Since austerity was believed to be beneficial, leading to price stability and crowding in of private investment (expansionary fiscal consolidation)**, the Fund's aid within structural adjustment programs since 1985 was strongly conditioned on general cuts in public spending and a reduction in public deficits.<sup>13</sup>

**As the downsides of austerity like pro-cyclical-ity or cuts in investment appeared ever more clearly**, the IMF reduced the degree of conditionality in its loans after 2002 while still preserving conditionality as a guiding principle.<sup>14</sup> After the euro crisis, the IMF admitted to having underestimated the negative impact of austerity.<sup>15</sup>

11 Fischer (1997).

12 IMF (2012).

13 Goldstein et al. (2003, 390).

14 Kentikelenis et al. (2016).

15 IMF (2013).

## High-Times of Market-Liberalism—1990s

## Toward a New Paradigm—2020s

### World Bank Group

#### From state failure ... ○

Since competition was seen as the best way to allocate resources and incentivize innovation, privatization of state-owned enterprises was a key element of the **Washington Consensus** and the structural reforms advocated for by the World Bank.<sup>16</sup>

#### ● to market failure.

Since market outcomes do not necessarily lead to technological breakthroughs, some economists at the bank turned to industrial policy. For instance, in his role as chief economist, Justin Lin developed the concept of 'new structural economics' in a book published by the bank in 2012 among other notable publications such as **The Growth Report**.<sup>17</sup>

#### From praising deregulation ... ○

As private initiative was seen as the main driver of progress, since 2002 the World Bank using its influential 'Ease of Doing Business' index ranked countries comparing legal and economic conditions for business, clearly favoring the most deregulated environment.

#### ● to rediscovering public goods.

The index has increasingly been criticized as not sufficiently considering the role of government. In 2021, a high-level expert group commissioned by the World Bank called for amending the methodology as the index did not reflect real competitiveness.<sup>18</sup> In 2022 the bank is developing a new methodology under the new term "Business Enabling Environment" (BEE).

#### From 'a lifting tide raises all boats' ... ○

Economic growth was considered as the best way to systematically reduce poverty since more equal opportunities were assumed to bring about more equal societies. Reducing inequality was not an explicit goal in the Bank's policies.

#### ● to 'leave no one behind'.

Rising inequality in particular in regions with the highest levels of privatization and the related negative effects on growth, led the World Bank to take distributional issues into account. In 2013, the bank started measuring inequality more widely (through a new index) and its Executive Board adopted **Shared Prosperity** as a new goal. A new annual flagship report called **Poverty and Shared Prosperity** was first published in 2016.

<sup>16</sup> Corbo et al. (1992, 85).

<sup>17</sup> World Bank (2008).

<sup>18</sup> Alfaro et al. (2021, 5).

## High-Times of Market-Liberalism—1990s

## Toward a New Paradigm—2020s

### OECD

From the market-liberal job studies ... ○ ————— ● to recommending minimum wages.

**As regulation was considered to lead to unsustainably high wages**, the OECD in their ‘jobs studies’ since 1994 strongly advised to deregulate labor markets. A minimum wage was considered to lead to higher unemployment.

**As deregulated labor markets in practice contributed to a strong increase in precarious low-wage jobs**, the OECD in 2015 acknowledged that minimum wages can be useful in reducing poverty and in 2018 adopted the “revised jobs strategy”, officially recommending their introduction.

From international tax competition ... ○ ————— ● to minimum taxes on a global level.

**International tax competition was seen as an incentive to lower the tax burden and to keep public spending in check.** The OECD has for a long time tolerated the existence of tax havens and countries attracting investors by offering very low taxes.

**In practice, tax competition has led to a race to the bottom, eroding the tax base of many countries.** In 2015, an OECD/G20-led initiative started to coordinate measures against tax evasion. In 2021, after support from G20 Finance Ministers (July, 2021), 137 countries agreed to establish a global minimum tax under the auspices of the OECD (October, 2021).

From economic growth as the panacea ... ○ ————— ● to inclusive growth as new goal.

**With material income being the basis of economic and social progress**, GDP became a natural indicator of human wellbeing and clearly favored by the OECD in its policy advice since 1951 when the OEEC, the precursor to OECD, developed the methodological basis for GDP.<sup>19</sup>

**As GDP increasingly missed important aspects of human wellbeing such as the quality of the environment or equality**, the OECD started to consider a larger set of indicators in its 2011 **Better Life Initiative**, and the annual **How’s Life?** report which provides an overview of well-being in OECD countries.

19 Bos (2009, 31).



## High-Times of Market-Liberalism—1990s

## Toward a New Paradigm—2020s

### European Commission

From the strictness of Maastricht deficit rules ... ○

As governments were considered to have incentives to not reduce public debt in a monetary union (**moral hazard**), the Maastricht Treaty in 1992 defined strict debt and deficit ceilings that should not be exceeded except in extraordinarily grave circumstances, in particular, in the case of natural catastrophes.

● to flexibility and shared public debt.

After the euro crisis had made increasingly evident that strict fiscal targets may lead to harsh austerity, thereby deepening recessions, in 2015 the Commission adopted “flexibility guidelines” to grant exceptions during downturns and to give leeway for more public investment. In light of the pandemic, the European Council set up the **Next Generation Fund** in July 2020 and for the first time created joint public debt at the union level. A reform proposal presented by the EU Commission in November 2022 principally reaffirms the Maastricht deficit and debt criteria but allows for a slower path towards debt reduction and accounts for country-specific circumstances.

From the Lisbon strategy of competitiveness ... ○

Following the established Washington Consensus (see IMF above), the Commission in its review of the **Lisbon Strategy** in 2005 defined that in the area of industrial policy, public authorities should only act in the case of market failures or to foster structural change<sup>20</sup>.

● to mission-oriented industrial policies.

As it has become increasingly evident that **breakthrough innovation often does need government support**, the EC is pursuing an **inter-sectoral or mission-oriented approach** inspired by Mazzucato (2019). For instance, the research funding program **Horizon Europe** adopted in 2019 focuses on five areas related to climate and health and in 2020 the Commission approved **A New Industrial Strategy for Europe** to promote an entrepreneurial industrial policy toward climate neutrality and digitalization. An update of the industrial strategy in May 2021 called for an improvement in resilience and open strategic autonomy when dealing with dependencies on global supply chains.

From a belief in carbon market pricing ... ○ ● to the Green Deal.

With market mechanisms being considered the **most effective way to put a price on and reduce carbon emissions**, the EU in 2005 introduced the **Emissions Trading System (ETS)** as a central instrument of its climate policies.

Since the ETS has not delivered a **continuously rising carbon price**, the EU in line with a growing number of economists has widened the spectrum of its climate policies including public investment. This broader approach is best reflected in the EU **Green Deal** introduced in 2019, combining massive public investment e.g., through the **Sustainable and Smart Mobility Strategy** for sustainable infrastructure projects, and legally binding goals (European Climate Law).

## High-Times of Market-Liberalism—1990s

## Toward a New Paradigm—2020s

### European Central Bank (ECB)

From the Bundesbank orthodoxy ... ○ ————— ● to an ECB as lender of last resort.

Since the ECB's statute had been developed in a period when free markets were considered to be most efficient and financial crises to only happen in the case of policy mistakes, the Maastricht Treaty in 1992 explicitly excluded cases in which the bank would have to bail out individuals or governments. Also, the ECB was designed with price stability as its ultimate goal.

As the GFC and the euro crisis sparked self-reinforcing panic on the financial markets, the ECB started to accept the need for stabilizing interventions (bailouts). This helped to stop the crisis in 2012 as well as the generalized financial crisis at the start of the Covid-19 pandemic in 2020. Also, Concerns have also increased that the ECB's unconventional crisis policies might have adverse side-effects on wealth distribution and climate change. The ECB undertook a first strategy review including a climate change action plan in 2021.

### Bank for International Settlements (BIS)

From Basel I&II and the believe in efficient markets ... ○ ————— ● to recognizing systemic risk and Basel III.

Since the only case for crisis in an efficient market setting was considered to be those caused by misbehavior of individual banks, the regulation fixed in the Basel Accords I (1988) and II (2004) was limited to assessing the risks of individual banks, which were allowed to utilize their internal models to calculate capital adequacy.

Because boom-to-bust cycles in financial markets have led to crises with sizable negative spill-over effects on the real economy, the need to address system-wide risks (like credit busts) became apparent, leading to a new set of macro-prudential regulations introduced via the Basel III Accord in 2010. These now require counter-cyclical capital buffers among other measures.

### UK Treasury

From privatization and budget cuts ... ○ ————— ● to re-nationalization and public spending.

During the high-times of market-liberalism, industrial policies were considered to inefficiently disturb market competition. The UK Treasury instead focused on privatizing industries like the railway system in 1991. There was also a Private Finance Initiative 1992 aimed at the National Health Service.

As the limits to private market mechanisms has become more and more apparent, the UK in line with other governments and the EU has started to redefine its industrial policies. In 2017, the government decided to adopt an Industrial Strategy. Government spending as a share of GDP has steadily increased since the millennium, reaching levels equivalent to those prior to the significant cuts in the 1980s and 1990s. (For example, the Scottish government recently renationalized the rail system.)

## High-Times of Market-Liberalism—1990s

## Toward a New Paradigm—2020s

### US Department of the Treasury

From Ronald Reagan's tax cuts ... ○ ————— ● to Joe Biden's Jobs Act.

**Following the leitmotif of Reaganomics to cut taxes**, US fiscal policy has during the 1980s and 1990s been characterized by falling tax income and rising public debt, then followed by attempts to reduce deficits via cuts in spending (e.g., **Welfare Reform Bill 1996**).

**The erosion of the tax base and critical under-investment into US infrastructure are increasingly being considered unsustainable.** In 2021 the Biden administration set up public investment programs to rebuild infrastructure, strengthen social protection and mitigate climate change while trying to increase taxation on richer Americans.

### Germany's Federal Ministry of Finance

From fiscal frugality ... ○ ————— ● to big off-budget investment packages.

**In line with the general belief in fiscal prudence**, Germany during the 1990s aligned its policy with the strict rules set by the **Maastricht Treaty** (see above) thereby ignoring the space that legally would have been allowed by the constitutionally set 'golden rule' (a deficit corresponding to net public investment). During the 2010-decade, fiscal policy has been driven by the idea to maintain the public balance in surplus (Schwarze Null).

**Following the increasing evidence around the downsides of an all too strict focus on reducing nominal deficits**, the 'debt brake' introduced in 2009—while setting restrictive targets—realized the need to focus on structural deficits beyond cyclical effects; it also more explicitly allowed for higher deficits in exceptional circumstances which has extensively been used to legitimate major expenses during the Covid pandemic as well as during the war in Ukraine. Reflecting wider acceptance of debt-financed policies, the new coalition in 2021 also adopted a certain number of measures providing room for public (climate) investment within the 'debt brake'.

From slashing corporate taxes ... ○ ————— ● to global tax coordination.

During the period of market-liberal reforms (Agenda 2010), Germany's tax policies were influenced by the supposed need to lower taxes on firms and capital in order to withstand global competitive pressure, as in the 2000 tax reform.<sup>21</sup>

In line with the new diagnosis and position of the OECD (see above), Germany's Finance Ministry strongly favored the introduction of a global minimum tax proposed by the G7 in June 2021 to stop ruinous tax competition.

21 The tax reform package of 2000 standardized the previously split corporation tax rate for retained profits (40%) and distributed profits (30%), reducing it to a uniform rate to 25 percent.

## High-Times of Market-Liberalism—1990s

## Toward a New Paradigm—2020s

### Bundesbank

#### From blatant money supply management ...

Based on the quantity theory of money, money supply (M3) is the Bundesbank's official target dimension since 1988 (Bundesbank, 1988).

#### to buried money supply management.

Up until today, the money supply management strategy is not revised (Kern & Krahé, 2022). However, it is not mentioned once in the new ECB strategy review of 2022 (ECB, 2021).

### German Council of Economic Experts

#### From determined privatization ...

In the recession 1993/94, the council's main suggestions were privatization, deregulation and cutting government expenditure (SVR, 1993).

#### to delicate consolidation.

In the recession 2020/21, the council underlined the usefulness of government actions next to promoting fiscal consolidation (SVR, 2020).

A comparison of the most critical positions between individual institutions clearly shows that there has been a shift in positions by all the major institutions which is by no means negligible. We will now analyze these shifts across individual institutions for each of the signifi-

cant challenges or policy areas of our time. This will give a sense of the extent of these shifts when thinking beyond geographies and institutional settings—something that would be a typical and necessary element of any complete paradigm shift.

## 3.2 Shifting Paradigms— A Shift Across Institutions

As an analytical framework, we will use the categorization of challenges and new concepts developed in Part 1 of this study. For each of the significant challenges, from climate change to inequality, we will examine to what extent the new streams of thinking have found a way into institutional policies or concepts at the international level.

### Renewing Climate Policies

Most of the institutions previously mentioned have adopted climate policies that depart from the orthodox idea of almost exclusively relying on (market) carbon pricing to fight climate change. This is reflected in the role that large-scale climate investment programs play within the EU, the German government, and the US Treasury. While the idea of a Green New Deal in its most far-reaching interpretation has remained a theoretical policy proposal, the EU's **Green Deal** does recognize the need for a whole-of-society approach toward the green and just transition. With the **Just Transition Mechanism**, the EU has cemented this approach into a €55 billion fund of targeted support for the regions most affected by the socio-economic transition.

In recent years, new initiatives at international institutions have started tackling methodological questions around green macroeconomics, including the OECD Paris Collaborative for Green Budgeting or the Coalition of Finance Ministers for Climate Action hosted by the World Bank<sup>22</sup>. Since 2021, the German coalition government has taken steps to make climate policy a cross-cutting priority by assigning responsibility for the International Climate Initiative, previously managed by the Federal Ministry for the Environment (BMUV), to the Federal Ministry for Economic Affairs and Climate Action (BMWK). Furthermore, international climate cooperation was significantly elevated in the priorities of the Federal Foreign Office.

Regarding a more fundamental redefinition of economic policy goals, the concept of **green growth** has become much more widely adopted when compared with the period of the simply GDP-growth-oriented policy 30 years ago. For instance, OECD members adopted an official declaration on green growth in 2009 and green growth strategies in 2011. Likewise, the Paris Climate Agreement and the United Nations Sustainable Development Goals (SDGs) adopted in 2015 could be seen as part of a global consensus in favor of green growth.

22 Efforts to mainstream climate more broadly in economic policy are also taking place at the Committee of the Regions (CoR), e.g., within the Green Deal Going Local group and the stakeholder networks on the circular economy at the European Economic and Social Committee (EESC). At the city level, the C40 mayors and Global Covenant of Mayors for Climate & Energy are working towards green urban policies in over 10,000 cities worldwide.

There has also been some progress with how to redefine measures of wellbeing. Initiatives to replace and complement GDP have been gaining traction in international institutions. The Commission on the Measurement of Economic Performance and Social Progress, assigned by French president Nicolas Sarkozy (Stiglitz et al., 2009), assessed the limitations of GDP and recommended developing additional indicators for wellbeing. This initiative was carried forward by the OECD, which has advised national governments on implementing wellbeing strategies (e.g., New Zealand). The German Ministry for the Economy and Climate Action included additional social and environmental indicators in the 2022 Annual Economic Report for the first time in its history. (This will be discussed in more detail in part 4.)

Support for indicators beyond GDP can be found in the official documents of major international organizations – from the United Nations to the OECD and EU bodies such as the European Parliament. For example, in 2021, The European Economic and Social Committee (EESC) demanded that a Beyond GDP scoreboard be incorporated into the European economic governance process, proposing that this new scoreboard could be based on the ‘Doughnut Economics’ concept from the ZOE Institute. Nevertheless, there has been little progress in applying these new measurement concepts to define fiscal or economic policies concretely.

## Redefining The Role of Government Toward an Innovative State

A core policy of the Washington Consensus – privatization – was based on the state failure hypothesis. Due to growing recognition of the positive role of the state in enabling innovation (Mazzucato, 2019), major countries like the UK and supranational bodies such as the European Commission have recently formulated industrial strategies. The idea of mission-oriented policies is reflected in the EU **research and innovation** program Horizon Europe. At the World Bank, a shift in thinking on this topic is reflected in several of its publications, including the expert review concerning the reform of the Doing Business Project. In Germany, during his electoral campaign in 2021, the now-elected chancellor, Olaf Scholz, proposed the concept of mission-oriented policies inspired by Mazzucato. It should also be mentioned that beyond the case for industrial policies, the idea of letting markets do the work has lost attraction at all levels, leading to the re-introduction of government regulation and even re-nationalization of formerly privatized services (e.g., the railways in the UK).

## Rethinking Globalization

Today, there is broad consensus on the diagnosis that globalization has left behind losers significantly in excess of what market-liberal proponents would have expected (and promised). Strengthening ‘left behind’ regions is part of practical government policies in the UK and the US. The idea of **pro-active regional policies** has found its way into policymaking bodies in Germany. In 2020/21, the federal government launched a “future fund for the automobile industry” to identify which critical regions in Germany will be hit by the coming industry transition toward electro-mobility. The fund, now located in the Federal Ministry for Economic Affairs and Climate Action, should assist the green transition. Numerous local initiatives also bring together stakeholders in anticipation of this transition and promote new industries to replace traditional car production. The fund at the German Federal Finance Ministry has been created to support tech start-ups and SMEs in cooperation with the Kreditanstalt für Wiederaufbau.

There has also been a significant shift that recognizes the limits and the downside of tax competition. During the market-liberal paradigm, major institutions like the OECD sold tax competition between states as highly helpful in pressurizing the government to reduce public spending and leave space for private business. In practice, however, this competition led to a race to the bottom, resulting in falling tax revenues. A shift has occurred, not only at the OECD but in nearly all of the major countries, including Germany, the US, France, and others. This major shift was reflected in the large consensus of G20 countries introducing a global minimum tax in 2021. As an additional example, the recently proposed Inflation Reduction Act would introduce a 15% minimum tax on corporations in the US. Also, there are now several governments that promote a Financial Transaction Tax, which would not have been easy to imagine some 15 years ago.

## Turning Fiscal Policies Away from Austerity

There has been a clear shift away from the all too rigid fiscal rules and austerity programs in all relevant international bodies and most governments. Since the Global Financial Crisis, a new fiscal policy consensus around more flexible, less pro-cyclical, and more (public) investment-friendly rules has emerged at the IMF and other institutions like the European Commission and the US Treasury. This is also true of Germany's finance ministry, that despite this, has seen a return to old concepts—at least in theory—under the new finance minister in 2021. A growing acceptance of debt-financed government spending is inspired by the ever-increasing empirical evidence on the adverse effects of pro-cyclical fiscal policy. Greece, in particular, and other Eurozone countries that followed austerity during the GFC (Cyprus, Ireland, Portugal, Spain) experienced a sluggish recovery. The EU has since reformed the fiscal rules to allow for more flexibility acknowledging the economic context and the risk of self-defeating austerity. Under the exceptional circumstances of the pandemic, there has been an even broader-ranging consensus around debt-financed rescue packages, and organizations such as the IMF have very openly advocated for more public spending. A further clear sign of a shifting paradigm in fiscal policy is the European Union's move toward joint debt (EU Next Generation Fund) and the ample proposals for reform of the European fiscal framework.

Nevertheless, all these efforts remain behind what leading critics have proposed, e.g., a fundamental redefinition of the idea of a rules-based fiscal policy. A change toward standards-oriented policies, as suggested by Blanchard (2021), has yet to occur. There has yet to be a shift toward defining full employment as the ultimate goal of fiscal policy. This, too, would go beyond what was discussed by Giavazzi et al. (2021)<sup>23</sup>, even if the flexibilization of the EU's fiscal rules is de facto reflecting the importance of maintaining

23 As part of a broader consensus on the need to reform the EU's deficit rules, a Franco-Italian proposal for a new golden rule subtracts “spending for the future” such as climate investment, from the primary deficit.



economic activity and a high level of employment (to avoid self-defeating austerity, as shown in Greece after 2009). ‘Old’ (or orthodox) macroeconomic modeling still seems to exert some paradigmatic and policymaking power in this policy area, as highlighted by Heimberger et al. (2019), arguing based on interviews with economists at EU institutions.

## Renewing The Mission of Central Banks

In response to the GFC, all major central banks have adopted discretionary policies such as QE. This includes the US Federal Reserve or the Bank of England. The European Central Bank followed with a time lag due to resistance from tenants of the old thinking inside the ECB and the Bundesbank. Only in 2012 and under considerable pressure did the ECB admit to its role as a stabilizer in times of financial turmoil, when in late July Mario Draghi gave his famous Whatever it Takes speech. Taking on the role as a lender of last resort indicated a fundamental break with the former belief in the effectiveness of markets, enshrined in the no-bailout clause of the market-liberal Maastricht Treaty.

The ECB has recently also moved in the direction of widening its objectives further to consider not only financial stability but also possibly the neg-

ative impacts of its policy on the climate (e.g., via its bond purchase programs) or the distribution of wealth (via the effects of interest rates on assets). In July 2022, the bank decided it would now assess corporate bond holdings in terms of **climate-related risks**, building on its climate action plan, as outlined in its roadmap for the coming years.

In addition to the ECB's announcement of these recent steps, national central banks such as the Bank of England and the Dutch central bank are making use of their wider leeway. In 2021, the UK Government updated the Bank of England's mandate to include an explicit green agenda. The Dutch central bank has recognized biodiversity loss as a material financial risk (De Nederlandsche Bank, 2020). In addition, new actors were established to enhance knowledge sharing on climate-related risks internationally, such as the Network for Greening the Financial System (NGFS) founded in 2017 or the Financial Stability Board's (FSB) Taskforce on Climate-Related Financial Disclosure (TCFD) established in 2015 by the former governor of the Bank of England, Mark Carney. The BIS has started facilitating annual high-level exchanges about the topic, dubbed the Green Swan Conference in 2021.

While none of the major institutions analyzed in this chapter would explicitly endorse the concept of those who promote MMT, recent reports at the IMF (although not necessarily reflecting the organization's views) are taking up the public debate on new proposals for monetary financing (Bützer, 2022).

## Reforming Financial Markets

As succeeding crises since the late 1990s have shown, financial markets are much less systematically effective than monetarists had pretended. They tend to overreact and produce boom-to-bust cycles driven by debt. As a consequence of the GFC, all major countries have adopted stabilizing **macroprudential regulation**. At the international level, this is most strongly reflected by a revision of the Basel rules (Basel III), which prior to the crisis, focused solely on monitoring individual banks (Basel I and II). As mentioned, the idea of an FTT to reduce volatile high-frequency trading has at least received renewed interest and has been officially defended by the German federal government<sup>24</sup>.

There is also a clear revision today of the Washington Consensus view of market effectiveness with respect to global capital flows, especially for emerging markets. While, for a long time, the IMF had rejected the idea that **capital controls** should ever be part of the standard monetary policy toolkit, it has drastically shifted its position. It is now endorsing pre-emptive controls to combat speculative flows (Korinek et al., 2022).

Despite numerous financial crises since the end of the former Bretton Woods System of fixed exchange rates in the early 1970s, the idea of introducing a new Bretton Woods System has yet to

enter more practical policymaking circles. Against this backdrop of multiple global crises, with the advent of the pandemic in 2020, the IMF's Managing Director, Kristalina Georgieva nevertheless spoke of a “new Bretton Woods moment” (Georgieva, 2020). The notion of a **new financial architecture** was invoked by academics such as Kevin P. Gallagher and Richard Kozul-Wright (2022) who have recently made the case for a “New Bretton Woods”.

## Reversing Income and Wealth Inequality

While inequality as a phenomenon has not been on the agenda of governments and international institutions during the high times of liberalism—when wealth was supposed to trickle down—today, there is a broad consensus on the existence and adverse economic effects of income and wealth inequality. Official reports as well as empirical research at the IMF, World Bank, and OECD have started to focus on inequality (Ostry et al., 2014). The World Bank's new official goal of Shared Prosperity is also reflected in target 10.1 as part of SDG 10 under the UN Agenda for Sustainable Development. This symbolizes a rethinking when compared to the Millennium Development Goals where inequality was not a major concern.

24 Given that the recent EU proposal largely deviates from the original idea and is limited to equity markets, the Scientific Council to the German Ministry of Finance advised against introducing the tax, arguing that it will be counterproductive to the intended goal of financial stability (BMF, 2020, p. 5).

Reducing the gap between the rich and the poor is now also on the agenda of many governments. This is the case for the US Biden administration which aims for higher **wealth taxes**. For the 2023 draft budget (March, 2022), the administration proposed raising taxes for top income earners and introducing a new Billionaire Minimum Income Tax to ensure that households worth more than 100 million dollars contribute at least 20% in taxes on all of their income, including capital gains and unrealized income. Raising wealth and top income taxes has also been part of the program of Germany's chancellor Olaf Scholz, and also for the Green Party before the elections.

Even more clearly, there is now broad international consensus around the need to reduce the scope of the low-paid jobs sector. This has led to the introduction (and growth) of **minimum wages** in nearly all major countries, including Germany, since 2015. In addition, as a more expansive concept there is now considerable traction behind the idea of **Good Jobs** as a new labor market guideline, which is part of the political agenda of the Biden administration as well as of Germany's federal government. Internationally, the OECD has probably shifted its views most noticeably in this regard. Having recommended labor market deregulation during the 1990s, the organization is now endorsing minimum wages. **Germany** introduced a minimum wage in 2015, which has also subsequently been raised.

At the **EU** level, discussions about adequate levels of minimum wages are taking place (European Commission, 2020).

Notably, the now widely accepted idea of 'inclusive growth', as developed by the OECD and other major institutions, includes the notion that growth is desirable only if the fruits are distributed in a way that does not leave large segments of the working population behind. Despite these considerable shifts in paradigmatic positions, an overall evaluation also reveals areas of relatively slow progress or 'paradigm maintenance'. One such area might be international trade. New legislation toward higher standards, such as the German due diligence law coming into effect in 2023, and the recently proposed European supply chain law, indicate a growing political will to confront some of the worst practices in international trade. On the other side, the overall gridlock at the WTO can be seen as a sign that no 'new' coherent alternative to the 'old' free trade narrative is yet in sight.<sup>25</sup>

In light of the Russian invasion of Ukraine, Janet Yellen coined the term 'friend-shoring' in international trade relations. It remains to be seen whether the US and EU will be able to consistently follow such a geostrategic approach in the coming decade(s), given that the essential inputs required for decarbonization, are reliant on an increasingly authoritarian China.

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25 The organization could however play an important role in the green transition as described in the International Systems Change Compass (see SYSTEMIQ, The Club of Rome, and the Open Society European Policy Institute 2022, p. 125).

### 3.3 From the Washington Consensus to Something New?

In the combined comparison of individual institutions and a cross-institutional analysis, there is a clear indication of a remarkable ongoing paradigmatic shift in economic policies and advisories. What is guiding governments, central banks, and others is far from the simplistic market-over-all thinking that has dominated for more than three decades. In this sense, new economic thinking definitely has succeeded in entering practical policies. Taking the market-liberal era as an example, it may nevertheless be useful to examine if these new developments are (already) as powerful as the Washington Consensus (see Box 3). The notion of a consensus reflected the phenomenon of an informal coalition of institutions very forcefully applying the dominant paradigm.

Among other actors, international organizations and their research departments (IMF, OECD, ECB, BIS) have played a crucial role in providing new empirical evidence and in developing alternative economic models. The particular characteristics of international institutions – bureaucratic structures, political nonalignment, and a regionally diverse composition – enable them to theoretically function as hubs of discourse. In some cases, these institutions may react quicker to new insights or developments and crises. This is the case for central banks that after the GFC, broke with monetary policy taboos. One prominent example is the European Union,

which has undergone a steady but consequential evolution toward what van 't Klooster (2021) recently labeled “technocratic Keynesianism”. He argues that ECB technocrats successfully adopted active credit guidance by applying “strategic ambiguity”, which allowed them to operate within the limits of legal permissibility and political feasibility (van 't Klooster 2021, p. 2). Another example is the research conducted at the Bank for International Settlements (BIS). Baker (2020) dubs the approach of the **BIS** as providing economic policy advice through “measured contrarianism”. According to Macfarlane et al. (2019, p. 24), the adoption of macroprudential regulation represented a rejection of the ‘old’ paradigm of efficient markets.

At the same time, these new practices are in no way near the ideal of what a new paradigm would mean for most of those in search of it. Inequalities are not receding. Stopping climate change would require much more vigorous public investment and a more consistent redefinition of tax rules. Moreover, a more convincing new set of globalization policies is still needed that also considers that markets do not regulate themselves or necessarily lead to a social or economic optimum in times of pandemics or war. Nor do there yet appear to be clear new beliefs and practices that could be agreed upon by a range of international institutions, as was the case in the era of the Washington Consensus. Even the US

administration did not succeed in finding a clear majority for President Biden's historic Build Back Better agenda.

Is a new consensus emerging to replace the Washington Consensus? There have been recent attempts to unify concepts into a new consensus on an official international level. In 2021, the G7 commissioned leading international experts to work on paradigmatically new guidelines for policymaking. Among the experts were Mariana Mazzucato, Thomas Philippon and Stormy-Annika Mildner. This so-called Panel on Economic Resilience drafted a **Cornwall Consensus** that calls for the consideration of health and environmental protection as universal public goods envisioning a more strategic role for the state. One of the concrete proposals was to launch a new, publicly funded interdisciplinary and cross-border center for climate research.

It remains to be seen if this attempt will become powerful enough to replace the old consensus. The report made some headlines when it was published in 2021, but the term, Cornwall Consensus, all but disappeared after that. Nevertheless, it is important to bear in mind that often such labels only appear powerful in hindsight.

Checking the shift in thinking among internationally relevant institutions confirms our basic diagnosis, that a deeper paradigm shift is underway, and that in some cases it is even quite advanced. It also confirms that we are probably in the midst of this paradigm shift while leaving a lot of potential to complete it.

We will now take a more in-depth look at the shifting positions of leading political groupings and parties in Germany.

### Box 3

## The Washington Consensus As A Global Economic Paradigm

The *Washington Consensus* was a striking example of how an emerging paradigm, beginning with a few key institutions, began to dominate politics around the globe. The term was first used by John Williamson in 1990. Drafted in light of the debt crises in Latin America in the late 1980s, the original set of policy prescriptions focused on deregulation, fiscal discipline, and privatization. The term *Washington Consensus* reflected that there was a common new understanding among the locally based institutions which included the IMF, the World Bank, and the US administration (mainly the US Treasury).

At the time, these had a major impact on economic policymaking in the world and were amplified by other international organizations like the OECD and the EU Commission. The *Washington Consensus'* focus on markets also started to dominate economic thinking and decision-making in leading governmental institutions like the UK Treasury or the German Ministry of Finance (as well as in the most important central banks), during much of the 1990s and the first decade of the 21<sup>st</sup> century. The European Central Bank's statutes in particular have largely been influenced by a profound belief in the effectiveness of financial markets.

**Table 4:** The Washington Consensus Policies

|                                  | Washington Consensus (1990)   | ‘Augmented’ Version (2002)  |
|----------------------------------|---|---|
| <b>Fiscal Discipline</b>         | Limit the deficit to below 1–2% GNP   | + Implement anti-corruption measures                              |
| <b>Public Spending</b>           | Prioritize investment in education, health, and infrastructure over non-merit-based subsidies | + Social safety nets  |
| <b>Tax Reform</b>                | Moderate marginal taxes, broad base   |   |
| <b>Interest Rates</b>            | Market-determined, moderately positive to avoid inflation                                     | + Financial codes and standards                                   |
| <b>Exchange Rates</b>            | Market-determined, freely floating to promote competitive exports                             | + Non-intermediate exchange rate regime                           |
| <b>Trade Policy</b>              | Reduce imports restrictions   | + Slower pace of trade liberalization, WTO agreements             |
| <b>Foreign Direct Investment</b> | Reduce restrictions on FDI  | + Slower pace of financial liberalization, prudential supervision |
| <b>Privatization</b>             | Sell state-owned companies  | + Corporate governance  |
| <b>Deregulation</b>              | Reduce regulation   | + Flexible labor markets  |
| <b>Property Rights</b>           | Reduce the size of the informal economy   |   |

Sources: Williamson (1990), Rodrik (2006), Babb & Kentikelenis (2021).



## PART 4.

# THE IMPACT OF NEW THINKING ON GERMAN POLITICS

### 4.1 New Thinking — Gains Across Political Borders in Germany

New economic thinking has started to enter into more relevant German policymaking despite an apparent time lag compared to countries like the UK or the US. During much of the time since the GFC, Germany has even been strongly criticized in international circles for its excessively restrictive economic and fiscal policies, still inspired mainly by market-fundamentalism and economic orthodoxies. This was the case during the European sovereign debt crisis when Germany's finance minister advocated austerity in Greece and other countries despite increasing evidence that such policies are self-defeating. Also, Germany advanced slowly in mitigating climate change while mainstream economists continued to argue against central banks intervening in – the, at times – dysfunctional markets.

Nevertheless, in recent years, new thinking has begun to influence a much more comprehensive range of political groupings and infiltrated German politics. This development is supported by a growing proportion of Germany's citizens.

Surveys carried out by the Forum New Economy in 2019 and 2020 have found that a striking majority of respondents (59 %) declared that globalization had gone too far, and 87 % of respondents agreed that inequality was a major societal problem (Fricke, 2019). A clear majority also supported public investment, and almost 80% opined that the privatization of public services had gone too far in the past.

A growing number of actors now declare that significant **inequalities** are a major societal challenge within Germany. The issue is regularly in the headlines, while think tanks and political foundations have put the topic at the top of their agendas across the political spectrum. Significant contributors like the Bertelsmann Foundation – that in the early 2000s had firmly pushed for the market-liberal *Agenda 2010* – have even started to redefine their programs around the fundamental need for sustainability in economic, social, and environmental terms, in stark contrast to the former predominance of efficiency as a guideline.

According to another Forum New Economy survey in 2021, now-chancellor Olaf Scholz gained much popular support during his electoral campaign thanks to one of its significant slogans around the need for (social) “respect.” Introducing wealth taxes has made its way into the party programs of the SPD and the Green Party.

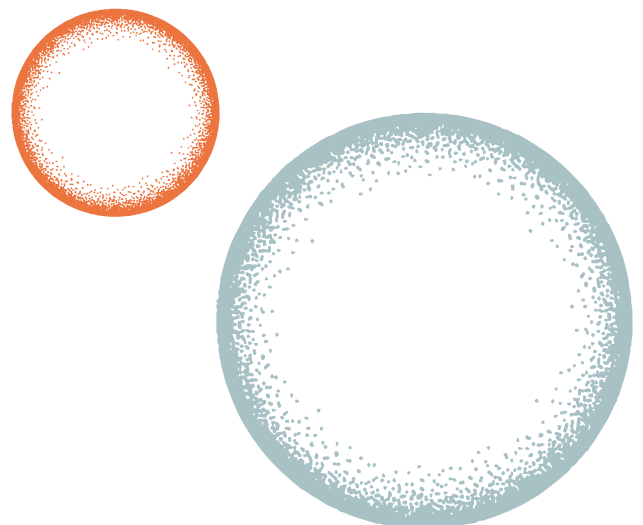
Many of today's new challenges have entered policy debates beyond classical borders. For the first time, **climate change** became one of the main topics for all democratic parties in the run-up to the federal elections in 2021. Also, there is now broad consensus in Germany around the need for considerable public investment.

Against the ever more apparent public under-investment during the high times of market-liberalism, even the more usually fiscally conservative political institutions have started to engage in a more fundamental **rethinking of fiscal policies**. In 2019, the Federation of German Industry (BDI) and the Federation of German Unions (DGB) collaborated to push for a massive increase in debt-financed public infrastructure investment. Based on a policy report co-written by Sebastian Dullien and Michael Huether (Bardt et al., 2019), they argued that Germany has significant public investment needs and that a debt-financed federal program of public investment expansion would not only generate more economic growth but also have a positive impact on state finances in the long run. The DGB held this position for a long time, but for the BDI to support such a fiscal proposal is new and indicates a shift of sentiment on fiscal policy.

There is also a growing perception, even among more conservative actors, that there is something wrong with the market-liberal concept of **globalization**. In November 2020, Germany's former finance minister Wolfgang Schäuble complained about the downsides of a sort of a hyper-globalization (*Globalisierungsrausch*), advocating for policies that would stop capitalism and financial markets from overheating (Schäuble, 2020). German finance ministers have also begun to campaign for a *Financial Transaction Tax* (FTT), as well as to introduce a global minimum tax to stop unfair competition.

Since 2020, the crises brought about by the pandemic, and the Russian invasion of Ukraine has made the downsides of uncontrolled globalization more apparent—in Germany more than elsewhere, when supply chains were interrupted, highlighting **critical dependencies**. This led the (then) German health minister Jens Spahn, at a Forum workshop in autumn 2020, to plead for a reconsideration of the state's role. He also underlined the importance of a robust welfare state during a health crisis and considered the need for government policies to support European champions. In the summer 2022, one of the German CDU's leading minds, Norbert Röttgen, expressed the need to rethink Germany's export and economic model.<sup>26</sup> The Industry Federation (BDI) also in 2022, entered into discussions on how to make Germany less trade-dependent, thus clearly breaking from their previously held belief in the efficiency gains from international trade. This departure from the somewhat naïve German export market model shows that the paradigm shift has started to spread to fiscally conservative actors in Germany (even beyond the traffic light coalition of SPD, Greens, and Liberals).

The most noticeable appearance of new thinking in practical policies in Germany has been, without doubt, attempted by the coalition government beginning late in 2021. We will now examine some of the significant examples of such new approaches.



26 „Wir können nicht mehr Außenhandel ohne Geostrategie betreiben. Das müssen wir Deutschen lernen.“ (English translation: “We can no longer conduct foreign trade without a geostrategy. We Germans have to learn that.”) (Röttgen, 2022).

## 4.2 New Thinking in Practice —A New Government as a Game-Changer?

The new traffic light coalition has made steps toward a more modern economic policy approach with significant changes in the areas of (green) public investment, industrial policy, minimum wages, and social policy. The foundation for some of these changes was already laid by the grand coalition of CDU/CSU and SPD in the legislative period 2017–2021. Still, the new, traffic light coalition has managed to increase the step size significantly and paved the way for new types of policies. In institutional terms, new approaches were reflected in the reorganization of the formerly strongly orthodox Federal Ministry for Economic Affairs, now integrating climate as a significant part of its agenda and organization. Major new policies are mainly undertaken in three areas.

### 4.2.1 Redefining the Role of the State

#### Rethinking Fiscal Rules – Favoring Debt-Financed Public Investment

According to the previously dominant paradigm, the state is almost always an ineffective provider of services that the market could provide more effectively. This ideological argument was applied to a sector that, until the 1980s, was still believed to be firmly within the government domain: public infrastructure (train system, utilities, etc.). Unsurprisingly, a wave of privatization of public companies began in the 1980s and led to a steady decline in public investment continuing up until recently.

In the new paradigm, an expansion of debt-financed, green public investment (the *European Green Deal*) is an integral part of the successful transition to a green economy; see also the discussion on modern climate policy and the design of new fiscal rules discussed in part 1. In line with this economic thinking, the downward trend in public investment spending stopped a few years ago in Germany, and under the last coalition government (CDU/CSU and SPD), public investment as a fraction of GDP started to rise in the legislative period 2017–2021 (BMF, 2022). In addition, the last coalition government provided additional financing for green public investment projects as part of the *2019 Climate Package* and the fiscal stimulus package of 2020. These were the first steps in the new direction, but it is only with the new traffic light coalition government that there has been a commitment to a permanent and massive increase in green, public-sector investment. This shift in perspective is not only part of the coalition agreement but is also reflected in the fiscal budget of 2022 and the fiscal plans for 2023–2025 (BMF, 2022).

Also, a wider discussion has started around Germany's *Balanced-Budget Rule* (debt brake) enshrined in its constitution. There is an ongoing debate as to how this stringent fiscal rule prevents public investment. However, the German debt rule allows for unlimited deficit spending in the case of an economic crisis, and this exemption was used in the fiscal years 2020–2022. Additionally, economists argued that certain types of public investment are permanently excluded from the balanced-budget rule (see study commissioned by the Forum – Krebs, Steitz & Graichen, 2022). These suggestions found their way into the coalition treaty in late 2021, allowing the new federal government to finance a significant increase in future public investment via debt.

Of course, this only applies to something other than government spending on human capital investment like re-training programs for workers and general education. Given that the economic outlook is bleak, additional fiscal spending will be needed.

### **Innovative State – Toward a Modern Industrial Policy**

Innovative thinkers like Mariana Mazzucato and Dani Rodrik point out that developed countries will have to use some version of the strategic industrial policy if they want to successfully manage the transition to a green economy (see also the discussion of hyper-globalization and the theory of the state in part 1). In particular, governments will have to identify growth sectors and support domestic companies in these sectors to achieve their overriding goals or mission. This approach differs significantly from the old paradigm, in which governments would, at best, provide economy-wide subsidies for basic research and development without formulating any industrial strategy or mission.

German public opinion has always been somewhat skeptical of industrial policy, which is not surprising, given the usual negative media coverage. For example, the Kiel Institute (IfW) annually publishes a report on the volume and types of subsidies in Germany (Laaser et al., 2021). The publication is often accompanied by a heavy dose of lamenting from economists against any subsidy. Of course, as the numbers in this report show, Germany has always conducted some industrial policy in practice. Still, industrial policy was rarely discussed as part of an overall policy program derived from overriding principles.

This silent approach to industrial policy in Germany changed for the first time in 2019, when Peter Altmaier (CDU), the then-Minister for Economic Affairs, proposed a strategic industrial policy. The reaction of most economists and the economics media was swift and mainly negative (Schumann, 2019). The minister's presentation of the initiative was initially based on relatively general guidelines, leaving a great deal of room for interpretation by the skeptics, and causing it to backfire. Additionally, the ferocity and negativity of comments made by many economists suggest that something deeper was going on. These comments were the reaction of an economic establishment entrenched in an economic paradigm in which strategic policy should have no place.

Since Robert Habeck (Greens) took over from Peter Altmaier as Minister for Economic Affairs in 2021, staff at the ministry have started to work more systematically on policy proposals that could presumably be part of an overall industrial strategy. In addition, Habeck himself and some deputy ministers (state secretaries) have made remarks that point toward a strategic approach to industrial policy. However, it seems too early to tell if these remarks and initiatives will ultimately add up to a coherent set of implementable policies to form the basis of a strategic industry policy in Germany.

## **4.2.2 Reducing Inequality –The Case for a Minimum Wage**

As mentioned earlier, the idea of reducing inequality via introducing a legal minimum wage has become widespread. Germany has followed this trend with a considerable time lag and introduced a minimum wage in 2015.

German politics has witnessed a shift in sentiment on the minimum wage that mimicked the developments in the economics profession, though perhaps with some delay. For a long time, any attempt to introduce it in Germany met with stiff resistance. When a federal minimum wage of 8,50 euros was finally introduced in 2015, many politicians and most economists predicted a substantial increase in unemployment. However, changed the public debate changed after the predicted employment effects did not occur and low-wage workers experienced the benefits of (relatively) higher income. For example, raising the minimum wage to 12 Euro was one of the main campaign promises of Olaf Scholz and his Social Democratic Party in 2021, and the main argument put forward against such a step was a rather unconvincing institutional objection – according to critics, it would undermine the work of the minimum wage commission.

In June 2022, a raise in the minimum wage to 12 euros was passed by the German congress (Bundestag) with a substantial majority, including the votes of the FDP, while CDU/CSU abstained for strategic reasons but without a serious effort to stop the legislation or to debate it in public.

### 4.2.3 Beyond GDP— Redefining the Objectives of Wellbeing for Germany

In the past, the more fundamental approach of measuring wellbeing via the traditional GDP has found its way into German policymaking with several initiatives and commissions. Inspired by the path-breaking report from the *Stiglitz-Sen-Fitoussi-Commission*, a range of high-level experts followed up with recommendations for Germany. They included the German Council of Economic Experts and the Bundestag's *Enquete Commission: Wachstum, Wohlstand und Lebensqualität* ("Growth, Prosperity, and Quality of Life"). Citizen assemblies about the topic were also held to include a broad range of viewpoints. These fed into an official government report on wellbeing entitled *Gut Leben in Deutschland – Was Uns Wichtig Ist* ("Well-being in Germany – what matters to us"). These initiatives had one thing in common – none of them noticeably changed any policies in Germany. A more serious attempt was undertaken in early 2022 with the introduction of a broader definition of wellbeing into one of the leading economic policy reports by the new government.

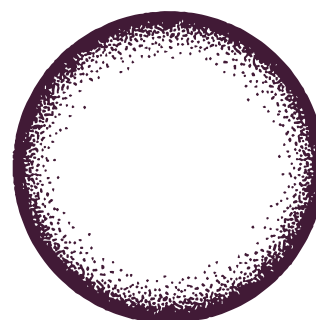
This year, the Ministry for the Economy and Climate Action included additional social and environmental indicators in the 2022 Annual Economic Report for the first time. Specifically, the report consists of an extra chapter on sustainable and inclusive growth in which various environmental and social progress indicators are discussed. Apart from GDP, the first part of this new section ("growth, income and employment") among other things measures the employment rate, the gender pay gap, gross fixed capital formation, and greenhouse gas intensity. More specifically, environmental indicators measure air and water quality, the share of renewables in total energy consumption, the speed of land sealing, and so on. On education and research, the report lists public and private R&D spending and Germany's share in research-intensive goods. As the report mainly builds on existing government initiatives on wellbeing and sustainable development, most of the indicators contained in this new chapter are already being tracked (e.g., as part of Germany's *Sustainable Development Strategy*).

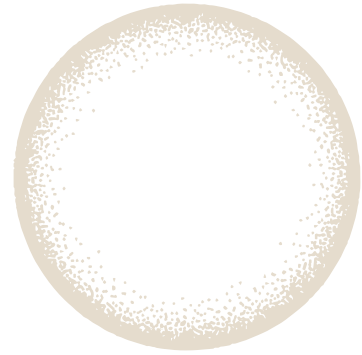
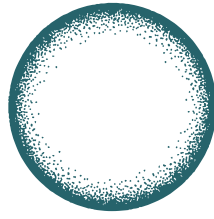
However, what is particular and striking about this report is a new objective to broaden the public's understanding of the economy and how economic value is created:

"The objective is to demonstrate how added value is generated in Germany and which resources are used in the process. This includes an assessment of the extent to which economic output is climate-neutral, or gender equality is achieved, for example. Ultimately the indicators are to provide an overview of the development of technological knowledge, human capital, capital stock, public finances, and natural capital and their availability for future generations." (BMWK, 2022, p. 78).

This fits into the Minister for Economics and Climate Action, Robert Habeck's sympathies for Mariana Mazzucato's work (Junge, 2022) and his concept of an ecological, social market economy. Indeed, Habeck spent ample time during the press conference concerning the release of the report to provide an in-depth discussion of these indicators and their importance for the government.

Nevertheless, at this stage, there are still no real consequences associated with the development of the indicators. At an event to mark the release of the report hosted by Forum New Economy in February 2022, Nicola Brandt and Maja Göpel made several suggestions on how to sustain the momentum for rethinking societal wellbeing and to ensure a rigorous follow-up to the report. That Germany is not alone in its effort to integrate wellbeing approaches into its economic procedures will be discussed in more detail in the subsequent chapter, alongside other more radical policy reforms that have diffused into the international policy landscape.



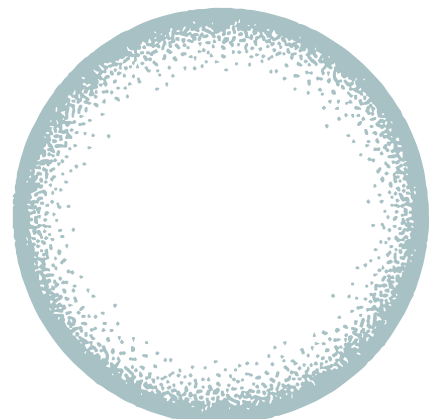
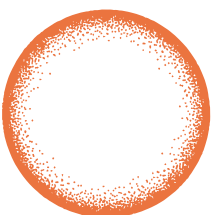


## PART 5.

# FUNDAMENTAL NEW CONCEPTS TESTED IN PRACTICE

As described previously, there has been clear progress in introducing new approaches both in economic thinking generally and in policy application across major international and German policy bodies. Clearly, this development is more than anecdotal. Nevertheless, the changes that have become relevant in practice, are in general, more about the adjustment of previous economic policies – even if these are far-reaching in many respects, given the very dominant old practices – than about the formulation of mature new overall policy concepts or systemic changes. This includes the redefinition of societal goals, as defined in our categorization of the main strands of new economic thought (see part 1).

There are, however, examples where governments around the world are in fact testing much more sweeping changes that are worth considering. The range of approaches encompasses universal welfare concepts and policies targeting job market precarity, doughnut economics, and ‘new work’ initiatives that explore the feasibility of a new balance between work and leisure. In the following, we highlight some of the most noticeable initiatives, which might well be considered as an innovation lab of sorts.





## 5.1 Systemic Changes in Climate Policy—Wellbeing, Just Transition, and Doughnut Economics

### Well-being Initiatives

Since the launch of the OECD's Better Life Initiative in 2011, around half of its member states have adopted wellbeing frameworks with new indicators to reflect social and environmental dimensions of societal wealth. In some cases, governments are combining those with the UN SDGs adopted in 2015. Perhaps the most well-known example of a 'beyond GDP' approach is the 2020 **Wellbeing Budget in New Zealand**. In 2019, their Treasury adopted its Living Standards Framework,. Each church must align its budget requests with the priorities formulated under the framework, and budget decisions are influenced by a new type of social cost-benefit analysis.

In Scotland, the government has established a National Performance Framework that aims to measure and improve the wellbeing of the Scottish people through a holistic approach that gives equal importance to social, environmental, and

economic outcomes. Other national and regional governments (e.g., in Canada, the US, France, Italy, Ireland, Iceland, Wales, and Ecuador) are also working on wellbeing frameworks and budgets. A central actor coordinating an exchange of best practices is the Wellbeing Economy Governments Partnership (WEGo). In comparing different experiences, a study by OECD economists Nicola Brandt et al. (2022) on behalf of the Forum New Economy found that implementing a 'beyond GDP' approach into concrete policy, requires more than the adoption of a set of new analytical tools such as societal and environmental indicator dashboards. New government reports about wellbeing may simply be temporarily discontinued (as in the case of the Australian Treasury's Wellbeing Framework) if there are no institutional mechanisms that permanently anchor the new strategy within the legislative process.<sup>27</sup> Direct responsibility by the Prime Minister or Minister of Finance, public and parliamentary participation, as well as independent oversight, e.g., by an Auditor General, are all factors which can contribute to the overall success of a wellbeing strategy (Brandt et al., 2022, pp. 12).

<sup>27</sup> Australia was a pioneer in developing new statistical measures beyond GDP and is now planning to introduce a wellbeing budget as in New Zealand.



## Just Transition

In line with recent efforts to renew and extend climate policies to include the dimension of justice and societal wellbeing (see Parts 1 and 3), the idea of a 'Just Transition' is increasingly present in policy discourses. In a similar vein to the EU's Just Transition Mechanism, the New Zealand government has established a **Just Transition Unit** in its Ministry of Business, Innovation and Employment. The unit is working in close cooperation with communities undergoing significant changes, to cushion the transition's disruptive impact during the shift to an equitable, inclusive, and low emission economy.

## Doughnut Economics

So far, the most well-known application of doughnut economics is the **Amsterdam City Doughnut**, adopted in 2020. The municipality set concrete objectives to align public procurement with social and ecological targets and plans to halve its raw material use by 2030, becoming fully circular in 2050 (Gemeente Amsterdam, 2020). Other cities working with this concept include Barcelona, Copenhagen, Brussels, Philadelphia, and Portland (Oregon) in the US. The strategies are developed with a high degree of citizen participation, often supported by organizations such as Kate Raworth's Doughnut Economics Action Lab, the Circle Economy, and the Thriving Cities Initiative by the C40 Cities Climate Leadership Group. Similarly, in 2016, the city of Oslo introduced the **Oslo Climate Budget**, a pioneering governance tool that forms part of the city's Climate and Energy Strategy. The climate budget allows Oslo to budget its CO<sub>2</sub> emissions similarly to its finances and is a crucial lever to achieve emission reduction targets.

## 5.2 Systemic Changes in Central Banking and Fiscal Policy Designs—From Green Budgeting to Helicopter Money

Apart from significant redefinitions of fiscal policy rules, national governments are also increasingly seeking ways to better align their budgets with main political goals. In recent years, more practical approaches have emerged to assess the effect of government spending and taxation on various policies, including climate goals, the SDGs, and gender equity. In addition to the previously mentioned OECD-led Paris Collaborative on Green Budgeting, the organization has been advising member states on **gender budgeting** and budgeting frameworks for wellbeing and the SDGs.

**Iceland** has shown that such budgeting initiatives can deliver tangible results in terms of concrete fiscal policy. After introducing gender budgeting in 2009, the Ministry of Finance and Economic Affairs had data available showing that maintaining the previous tax arrangements, where the higher-income partner could use the unused tax credits of the partner with a lower income, negatively affected gender equity. As a result, this provision was abolished as part of the income tax reform in 2015. An analysis by the OECD highlights the efforts in recent years by other countries, namely Austria, Canada, Japan, Korea, Mexico, Norway, Spain, and Sweden (Downes & Nicol, 2020, p. 68). **Australia's** experience indicates that progress is often non-linear. Although the country was the first to introduce a *Women's Budget Statement* in 1984, which analyzed gender-specific benefits and burdens, any broader, concrete effects on budget priorities and fiscal policy have been limited (Sharp & Broomhill, 2013, p. 21). Similarly, in

Austria, observers have noted that, even though the country was the first worldwide to introduce gender budgeting into the constitution in 2009, this has not resulted in much paradigmatic change (Mader, 2015, p. 53).

Other more radical economic proposals at the intersection of fiscal and monetary policy have also found their way into the political arena. In the wake of the decline in economic activity and an increase in unemployment due to the Covid-19 crisis, some governments have resorted to handing out direct cash payments to their citizens. In the US, each citizen under a certain income threshold directly received government checks (totaling around 3200 U.S dollars). In Hongkong, the government gave out a one-time gift of 10000 H K dollars – the equivalent of 1180 euros – to every adult who has a permanent residence in the special administrative region.

In the eyes of its proponents, a state sending checks directly to citizens in the form of '**helicopter money**' could be a more efficient way to fight financial crises than the QE undertaken by central banks since the GFC. In practice, therefore, the instrument has mostly been used to compensate short term cost or crisis shocks. In Germany, the government has given out a one-time energy price lump sum (*Energiepreispauschale*) of 300 euros to those in employment. The cash handout is supposed to help with the rising energy and living costs caused by the Russian invasion of Ukraine.

## 5.3 Systemic Changes Addressing Inequality and Societal Disruptions —From Universal Basic Income to a New Work-Life-Balance

Based on the diagnosis that socio-economic disruptions, caused by globalization and new technologies, have eroded labor markets, and exposed a significant number of people to economic or psychological damage, initiatives have been rolled out to address them. They range from guaranteeing a minimum income, or universal public services, to proposals on the reduction of working hours.

### Reducing Working Hours

In recent years, in an effort to adjust the balance between work and leisure, ‘new work’ proposals have increasingly been trialed. Iceland has taken on the pioneering role in testing the impacts of a working time reduction on wellbeing and productivity. In a pilot organized by the national government and the Reykjavík City Council – lasting originally from 2015 to 2017 – more than 1% of Iceland's entire working population, across a wide range of workplaces moved from a 40-hour to a 35- or 36-hour working week. Due to the overwhelming success of the trial, roughly 86% of Iceland's entire working population have now either

permanently moved to working shorter hours or gained the right to shorten their working hours (Haraldsson & Kellam, 2021).

Since then, other countries, including Sweden, Spain, and most recently the UK, have followed and started trialing ‘**four-day work week**’ pilots to investigate the socio-economic impacts of a shorter work week and its possible extension to the general workforce. Pilot schemes are also taking place in Ireland, the US, Canada, Australia and New Zealand. Belgium has officially implemented the right to a four-day work week in 2022, although the model has been criticized as it only foresees a subdivision of working time on fewer days instead of in effect, reducing it (IW Köln, 2022). In Germany, in the absence of an officially conducted trial program, some companies have proactively started experimenting with working time reductions independent of the government. An impact analysis of the more recent pilot programs is still outstanding, but the wealth of positive quantitative and qualitative data collected by the researchers overseeing the Iceland case – which due to the trial size and diversity of workplaces involved, may well be applicable to other countries – indicates the transformative potential of new work policies in practice.

## Job Guarantees

A policy tool aimed at addressing structural labor market weaknesses, the Job Guarantee has increasingly gained attention among policy makers. Countries including France and Austria have introduced rather unorthodox state-supported policies to target prevailing levels of long-term unemployment. In October 2020, the Public Employment Service for Lower Austria started piloting a **guaranteed job program** in the Austrian municipality of Gramatneusiedl with the aim to eradicate long-term unemployment in the region while simultaneously improving wellbeing, health and social outcomes among the participants. With a labor market structure that mirrors the regional average, extrapolated results from this trial will provide deeper understanding of the potential and shortcomings of job guarantee programs in a broader Austrian context (Kasy & Lehner, 2020).

A similar job guarantee program is running in France under the name **territoires zéro chômeur de longue durée**. The regionally based program was launched in 2017 across ten different French territories in response to the country's structurally high unemployment rates, growing job market polarization and an increase in long-term unemployment. A bill aimed at prolonging and extending the experiment to an additional 50 territories was adopted unanimously by the French National Assembly in 2020, and currently, more than 1,200 individuals are employed as part of the program (ETCLD, 2022). Eligible participants are offered the opportunity for long-term employment at the legal minimum wage. First results indicate a significant drop in the use of social aid, lowered rates of long-term unemployment and stronger perceptions of social cohesion (ETCLD, 2018, p. 67).

One of the more radical labor market policies at the level of the European Union is the **European Youth Guarantee** launched in 2013. Under the guarantee, member states pledged that citizens under the age of 25 will receive a good quality job offer in alignment with their skills and expertise, or the opportunity to partake in a professional traineeship or apprenticeship, within four months of entering unemployment or exiting from formal education. While in and of itself not a job guarantee, this initiative combines a rights-based concept (the guarantee) with active labor market policies and education and training (Escudero & López Mourelo, 2017). First empirical evidence from participating countries indicates that the program's impact has been hampered by insufficient resources and a lack of systematic early intervention measures (Escudero & López Mourelo, 2017, 22), confirming the non-linear and obstacle-rich process of diffusing new economic thinking into successful real-world politics.

## Universal Basic Income

To date, a growing array of welfare policy areas has seen at least some degree of practical reorientation in favor of a more universal welfare concept. Despite the controversial nature of the concept of a Universal Basic Income, an increasing number of countries have started to introduce UBI programs. Finland has spearheaded the practical paradigm shift in European welfare policy, running the first UBI experiment backed by a national government from January 2017 to the end of 2018.

Not least due to poor experimental design and severe limitations in scope and implementation, the project finished with mixed results (De Wispelaere et al., 2018). Nevertheless, several other countries have since embarked on similar projects, drawing lessons from the Finnish experience, including Canada and the Netherlands. From 2017 to 2019, the city of Barcelona piloted a project combining a guaranteed minimum income with active social policies, achieving generally positive results.

In mid-2020, the first long-term UBI project was presented in Germany. As a joint initiative of the German Institute for Economic Research (DIW Berlin) and the association My Basic Income. The pilot is privately funded and not organized by government agencies. The study covers 1,500 subjects, 120 of whom are randomly selected to unconditionally receive 1,200 euros per month for three years. The remaining 1,380 participants in the study serve as a comparison group to ensure that any changes observed in the study can in fact be attributed to the basic income (DIW, 2020). Results of the pilot are still outstanding.

## Universal Basic Services

Contrary to the UBI philosophy, the concept of Universal Basic Services (UBS) provides that people's minimum living standard can be guaranteed via general access to free public services rather

than through a guaranteed minimum income. UBS programs comparable in scope and form to UBI trials are yet to be implemented. However, some countries have introduced universal, free services in selected areas. Interestingly, the **UK National Health Service** could be considered an example of universal free healthcare. Other countries have introduced a temporary (Spain)<sup>28</sup> or permanent (Luxembourg; the city of Tallinn in Estonia), free provision of transport services. The German government in late spring 2022 introduced a strongly subsidized railway ticket. For 9 euros a month, individuals were allowed to use any local or regional **public transport**. The initiative was meant to compensate for rising energy costs due to the military conflict in Ukraine and its implications for raw material prices. It was time limited to three months.

Norway is coming close to providing **universal free childcare**. The government offers a legal guarantee to a place at a childcare facility for all children and covers 85 per cent of the related costs. It also caps fees and sets limits on profits for private businesses engaged in childcare provision (Coote, 2022).

In terms of housing, the city government of Vienna has long been known for its efforts to keep rents low by pushing municipal developments, using supply-side subsidies, and owning most of the land available for housing. In Amsterdam, local initiatives have established **collective housing projects** to realize affordable housing for a growing number of people (de Nieuwe Meent, 2022). Similar initiatives exist in Wales and England.

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28 The free public transit program in Spain, running from September 2022 to December 2022, is financed through a windfall tax on increased profits from energy companies and banks in the aftermath of the Russian war of aggression.

## 5.4 Systemic Changes in Democratic Participation and Digital Sovereignty

There is a perception that the market-liberal paradigm has led to a perceived loss of control at the political and individual level. One major attempt at redefining a new economic model assesses the extent to which excessive market power and a race to the bottom in government regulation has contributed to the erosion of democratic processes. This is also relevant to the challenges of globalization and technological disruptions, not to mention the market power exerted by big internet companies like Google, Amazon and others.

Across Europe, local authorities and citizens are challenging the market power exerted by digital platforms and are striving for a future with ‘digital sovereignty’ (Bria, 2022). These, mostly city-level projects, advise local authorities on ways to include software with embedded privacy configurations in their public platforms and renegotiate citizens' data rights directly with telecommunications firms. Furthermore, they aim to increase direct participation in the political process through online tools. The EU Horizon 2020 Project Decentralised Citizens Owned Data Ecosystem, coordinated by Francesca Bria and the City Council of **Barcelona**, is an example of such a bottom-up governance project. In the case of Barcelona, a political movement borne out of the anti-austerity protests in 2011, enabled innovative government policies to flourish (Monge et al., 2022, p. 6).

Similar projects in other cities include the Partnership for the Digital Future in **Hamburg** and the Finnish cities of Espoo, Helsinki, Tampere and Vantaa (Bremer et al., 2020). In Madrid, the city council has launched **Decide Madrid**, a digital platform aimed at ensuring the transparency of government proceedings and increasing public participation in decision-making processes. In order to bring about a more representative and participatory democracy, a group of parliamentarians in France founded the association **Parlement & Citoyens**, which allows citizens to co-write the law in full transparency with parliamentarians via a digital platform.

The above examples show that numerous, fundamentally new, policy proposals have taken real shape on the European continent and beyond. As such, they serve as examples that even those new ideas that sit on the more radical end of the spectrum of the paradigm shift – challenging existing societal objectives and aiming for a more holistic system change – have the potential to gain a foothold and transform actual policymaking.

# OVERALL SUMMARY, EVALUATION AND OUTLOOK

Since the financial crisis in 2008, market liberalism as a dominant leitmotif for policymaking has clearly collapsed. Increasingly, common sense has shown that simply liberalizing markets could have considerable side-effects – like strengthening inequality and multiplying financial crises or not being sufficiently adaptive at solving the challenges of our times like climate change or public trust in policy institutions. A new understanding of economics and economic policies has since gained traction, beginning in the US and UK, followed by Germany and other countries. At the same time, forces have tried to maintain or re-establish the former market-liberal paradigm and continued to block further advances.

This study has identified the state of this ongoing paradigm shift with a particular focus on Germany as the most influential country in defining the European spirit within economic policy. Today, there is ample and widely shared empirical evidence of the short-comings of market fundamentalism:

- Financial markets tend to regularly produce boom-to-bust cycles as well as significant crises and massive private debt.
- Fiscal austerity and the aim to reduce government influence regularly lead to major economic and social crises as well as to a lack of public investment.

- Carbon pricing via markets alone is insufficient and too slow to reduce carbon emissions and stop climate change.
- Free market globalization has produced a critical loss of political and individual control that both have started to seriously undermine the credibility of democracies while strengthening populist movements and actors.
- Deregulated labor markets and booming financial markets have contributed to a considerably widened gap between strongly growing top incomes and wealth on the one side and mostly stagnating or even shrinking revenues of the lower half of the population in countries like the US and the UK, but also in Germany.

The question remains, is there anything new developing to replace the former paradigm?

This study has collected ample evidence on the emergence of such a new movement.



## An emerging new paradigm ...

Some fifteen years after the financial crisis, today, there is indeed a **whole body of new ideas and concepts** on how to renew economic thinking. It has appeared in a primarily uncoordinated way but may, in hindsight, be interpreted as the intellectual underpinning of a new paradigm<sup>29</sup>. While much of the critics' research initially focused on identifying the underlying roots of market malfunctions, the looming crisis of market liberalism subsequently accelerated the constructive academic and practical search for solutions. This mostly uncoordinated endeavor has led to a considerable number of more or less mature new schools of thought that cover all of the above-mentioned challenges and is often identified with outstanding global thinkers like Dani Rodrik, Branko Milanovic, Mariana Mazzucato or Kate Raworth. There are also now various increasingly influential economists on a national level in Germany, contributing to new economic thinking, from Moritz Schularick and Dalia Marin to Jens Südekum, Philippa Sigl-Glöckner, and Tom Krebs.

As a sign of its intellectual breadth, new concepts in each major field also range from reforming within current institutions to developing new

overall policy concepts or more systemic changes and redefining societal objectives. New climate policies arrive with a broader set of instruments beyond carbon pricing that include sizeable public investment or pro-active industrial policies to frame technological change toward electro-mobility or hydro-energy. More fundamental concepts contain a redefinition of wellbeing indicators or even questioning the importance of economic growth as a policy objective. Regarding the role of the state in a more general way, there are now highly advanced new concepts on how to replace orthodox fiscal policy rules like accelerating climate investment or avoiding detrimental austerity. There is also a whole new strand of work on the innovative role of the state and the need to redefine globalization or promote good jobs.

Despite considerable differences, all these approaches and actors are bound together by a **common aspiration** to more proactively (and collectively) create the conditions for a socially just, financially stable, and environmentally sustainable economy. This very fact can be interpreted as a clear sign of an emerging new paradigm or a set of guiding principles that are sufficiently advanced to be more than just an episode – given

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29 As in the case of the market-liberal paradigm, which translated former, sometimes diverging intellectual work by scholars like Milton Friedman and many others.

that socio-political paradigms have always been nourished by sometimes conflicting intellectual models while having in common some basic dogmatic ideas.

Today, in common with the US and UK, there is a visible **field of organizations** and individuals in **Germany** that have started to support the development of such new ideas and concepts actively. Their mission is to widen the perception of the need for renewal and to bring new ideas into practical policymaking. They include a more significant number of sometimes classical think tanks and others working on specific topics like climate policies. A new kind of actor is actively trying to promote the overall idea of a paradigm change to explicitly replace the long-held market fundamentalism. These core actors include the Forum New Economy, The New Institute, or the ZOE Institute, as well as international institutions like the Institute for New Economic Thinking.

The success of actors like the Forum, bringing together more classical contributors and a growing number of more conventional institutions, can also be seen as a clear sign of **progressive support** for the idea of a new paradigm in Germany. At the same time, surveys indicate that a large majority of Germans want the state to take on a new role, protecting them from the downsides of globalization.

Clearly, the paradigm shift has gone beyond theory. Today, there is ample evidence of tangible changes in **actual policymaking**. This progress might, on a day-to-day basis, appear small given the absence of any major policy disruption. However, since paradigm shifts are non-linear processes that occur over a long period, the extent to which applicable policies already differ from the past only becomes apparent when directly comparing today's positions to the ones that dominated before the 2008 financial crisis. As shown in Part 3, there are hardly any examples of **international institutions** that did not change their policies significantly. For example, the IMF has abandoned its ideology of (entirely) free capital markets, and the OECD now promotes minimum wages instead of deregulation.

The same is true for major **German** political groupings, with the current **government** abandoning former orthodox concepts by introducing a minimum wage, massively investing in climate action, and adding new measures of wellbeing into its annual economic report. Even in parties that, until recently, have held up the old orthodoxy, a paradigmatic change is emerging. Pressured by recent crises that have revealed Germany's (market) vulnerability on a global scale, politicians like Wolfgang Schäuble have criticized over-globalization. Others now support a more interventionist industrial policy to reduce these dependencies.

## ... that now clearly is confronted with a critical challenge

It seems difficult to imagine that a purely market-liberal dogma will regain massive support and undo the progress made toward a new Leitmotiv. In this sense, the UK crisis in fall 2022 may be revealing with (even) financial markets rejecting the tentative return to Thatcher-like policies that Prime minister Liz Truss had aimed for.

At the same time, it is clear that this shift is far from complete. Progress is impressive compared to twenty years ago, but large parts of the academic community continue to be starkly influenced by neo-classical thinking. Traditional economists still represent a majority in the FAZ ranking of the most influential economists in Germany, while institutions like the Bundesbank remain anchored in orthodoxy.

Also, there are still gaps in the intellectual framing to be filled. According to Thomas Kuhn's famous theory, a new paradigm only replaces the old one when it appears as a credible overall alternative. New thinking is quite advanced when it comes to identifying the lessons to be learned from financial market instabilities or regarding fiscal policy. It is much less mature when it comes to defining the most effective instruments to reduce (wealth) inequalities or redesign globalization to restore

a sense of control. There is also significant potential for developing more convincing concepts to make economies growth-independent if further progress on climate protection or biodiversity will not be achievable under the current growth setting. Also, as our surveys have shown, new thinking needs a more developed overall paradigmatic framing and narrative.

All this may well be part of a typical paradigm shift. Historically, these kinds of changes always began with adaptations and then gained momentum. A complete shift only occurs following a long and complex process of back and forth. The challenge today seems to be that new answers need to become operational and change the living conditions of those who tend to vote for populist forces before these forces will win majorities in a growing number of liberal democracies.

Despite inspiring a good deal of fantasy about a New Deal and a whole new paradigm, US President Joe Biden has been challenged by the lack of support for his most crucial paradigm-challenging programs. The return of Donald Trump to the political stage would equal a considerable backlash. In this sense, promoting a new economic paradigm does equal a race against time.

It also appears wise to prepare for the worst case, which could open new opportunities. As monetarist Milton Friedman (1962) famously said: “Our basic function [is] to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.”

The above-mentioned race against time appears to be even more challenging, with recent geopolitical disruptions bringing about the return of inflation – something that is highly damaging to everybody's financial situation. It has also produced some tailwinds for classical thinkers that now pretend that inflation confirms the old economic orthodoxies of conservative fiscalism or monetary prudence.

As mentioned, backlashes have always accompanied paradigm shifts in history. And the war-driven inflation in no way invalidates the case for a redefinition of the role of the state. Markets will still not solve the urgent climate crisis nor contribute to a reduction in wealth inequalities.

They will not achieve socially more useful financial markets, nor will they make globalization work for all. The former market-liberal dogma seems to have durably lost its credibility.

The drama of our times is that, after the failure of decades of an overwhelming dogma, it takes time to reformulate the roles – of markets and states – and to effectively address the significant challenges of our times – from climate change to the redefinition of globalization. In times of rising populism and a profound crisis of confidence shaking liberal democracies, there is nothing more urgent than building and realizing a new and better paradigm.

As Italian philosopher Antonio Gramsci stated in 1937:

*“The old world is dying, and the new world struggles to be born: now is the time of monsters.”*

There is still time today to win the race against time, but time is running out.

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