



INSTITUTE OF ECONOMIC GROWTH KEC POLICY BRIEF



THE LONDON CONSENSUS: ECONOMIC PRINCIPLES FOR THE 21ST CENTURY*

Book Launch Presentation: Andres Velasco

Speakers: Deepak Nayyar, Ila Patnaik

Special Session

Book Launch

Date: 3rd October 2025 | Time: 16:15 – 17:45 hrs

Abstract: *The roundtable discussion and book launch of “The London Consensus: Economic Principles for the 21st Century” ignited an impeccable intellectual discourse on the policy imperatives of modern era. The book presents corrective policy principles adapting to the changing world and changing Economics. The compendium is expected to set an intellectual milestone in global academic and economic governance thinking.*

Introduction

“The London Consensus: Economic Principles for the 21st century” is an ambitious intellectual and policy discourse. The work is a compendium of over 50 of the world's influential economists and policy specialists at the London School of Economics and Political Science (LSE). The work has discourses on Innovation and Productivity, Trade policies, Macroeconomic fiscal and monetary policy, labor market reforms, equity, welfare state, education and healthcare, learning crisis, climate change and state capacity... As cited in the book “the challenges are easier to list, but harder is to identify the solutions”. The policy

brief crystallizes the main themes of the discussion, highlighting the core propositions, challenges, criticisms and implications for emerging economies.

Central Themes:

From Washington to London

The intellectual construct “London Consensus” represents a decisive shift from the hitherto dominant Washington Consensus (WC). The codified set of ten neo-liberal policies in WC was proposed by British economist John Williamson in the 1980s as a one-size-fits-all formula for economic growth and stability. These free-market principles and structural reforms intended to strengthen the forces of “invisible hand”, however had varied effectiveness and social consequences. The framework has neglected equal distributional outcomes, institutional inclusivity, diversity and political cooperation resulting in belied expectations. The rapidly changing geopolitical dynamics since 2008 Global Financial Crisis and the recent turbulence solidifies a new intellectual construct. In this context, “The London

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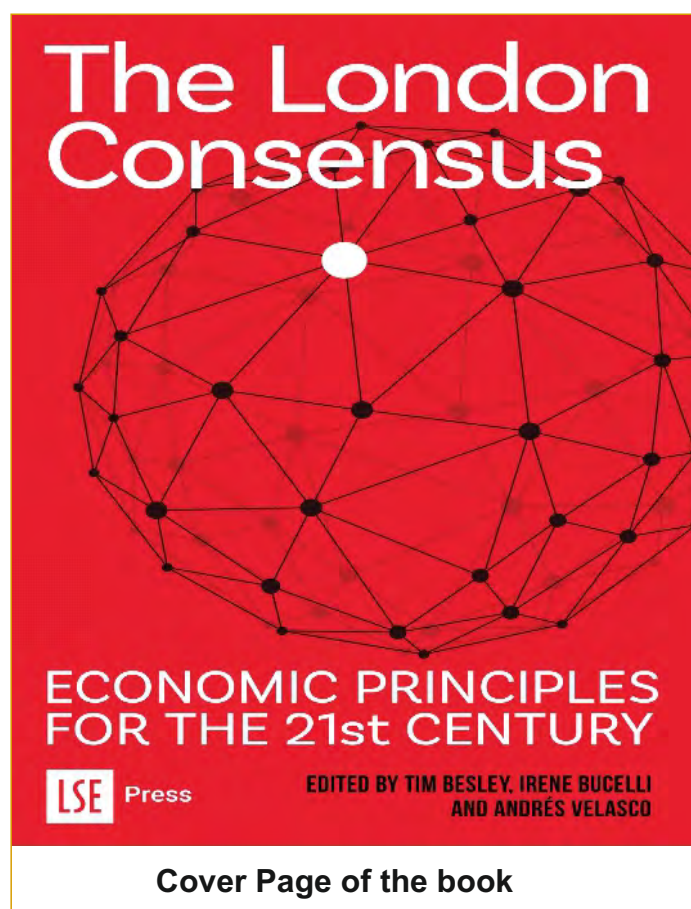
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Consensus” is expected to encompass well-being goals, place-based policies, conditional propositions, institutional capacity in an adaptive political economy framework.



Cover Page of the book

Well-being is the key

The Washington Consensus followed the perpetual divide between efficiency and distribution concepts in Economics since the time of classical economists. The excessive priority to efficiency at the cost of equitable distribution outcomes skewed the benefits to a miniscule section of the society. Therefore, the consensus reminds that economic decisions shall not just be limited to what to produce, how to produce, for whom to produce but additionally who gets what to produce.

Growth matters, so does place

London Consensus aims to nurture contextualized economic policies tackling the local problems giving due regard to economic geography. Localized ecosystems with focus on creativity, networks and learning shall be developed for human prosperity. Investment on place-based public goods, skill ecosystems, infrastructure architecture boosts regional growth. There shall be a properly managed system of rents and incentives at the local level to enhance regional participation and stimulate innovative solutions.

No good Economics without good Politics

Integrating political economy into policy design is crucial to build legitimacy, institutional trust and political stability. The intertwining of economics and politics in the development of a country is well-documented (Acemoglu et al., 2012). Quality of political institutions determine the quality of economic institutions and performance (ibid). Inclusive political institutions nurture inclusive economic institutions (ibid).

State capacity: A prerequisite

State capacity building is crucial to achieve smart productive outcomes. State capacity shall be enhanced holistically with development of markets. States and markets shall complement each other creating a system of checks and balances. State intervention becomes essential in the event of market failures to strengthen administrative capacity, enhance regulatory effectiveness, and ensure the efficient delivery



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of public goods and services — all of which are vital for maintaining a healthy economy. Governments must function as insurers against dynamic volatility including pandemics, job losses, and climate risks.

Framework of flexibility

The caution against excessive reliance on paradigms, which can hinder broader understanding, has been duly acknowledged. Consequently, the framework emphasizes flexibility through policy experimentation, region-specific approaches, contextual adaptation, and local learning. Like a doctor who prescribes medicines after detailed diagnosis, an economist shall be competent enough for conditional policy solutions.

Education, Health and Social Development

Economic development of the society combined with social progress of the people entails human progress. Unfortunately, social and economic inequality worsens the outcomes. Achievement of managerial and technical efficiency, scalability of learning outcomes, and increased focus on research and development is critical for effective industrial policy and quality of human resources.

Approaches and Design

There was a unanimous agreement on adaptive, context-driven framework, human-centric progress, state-market complementarity, efficiency-equity balance and alignment of economic and political systems. However, more particularized concerns have been raised within the discussion framework.

1. Question of “Consensus”: Consensus is

often mistaken to be the alignment of a miniscule section of academicians or policy makers. The role of a civil society in the broader perspective of “consensus” is often neglected.

2. Perspectives in an imperfect world: The conception of “good” and “bad” is seemingly unrealistic in an imperfect world run by imperfect human beings. There have been instances of good economics in bad politics. Therefore, efforts shall be focussed to draft “better” policies rather than focusing on good or bad.
3. The intricacy in social development debates: Themes focusing on crucial issues often hides critical linkages. To substantiate, gender inequality tends to focus around labor market inequality and ignores the pressing wealth inequality.
4. A New Delhi Consensus: An India Story
An interesting aspect of the discussion was drawing parallels to understand the applicability of policies in Indian context. India offers a compelling case of hybrid pragmatism — nurturing own context-sensitive development solutions in the pervasive neo-liberal ideological era. India has selectively accommodated the principles to formulate a human centric progress in a political framework. To substantiate, MGNREGA empowered millions of workers through an institutional safety net. The recent focus on Digital Public Infrastructure (DPI), Jan Dhan Adhar Mobile (JAM) trinity reduces the leakages and strengthens the financial inclusion.



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In the macroeconomic forefront, implementation of flexible inflation targeting combined with monetary policy adjustments boosted credit expansion and growth expanding the benefits to rural and inner areas. The emphasis on fiscal health through implementation of austerity measures, strict limits on Fiscal Responsibility and Budget Management Act (FRBMA) with respect to fiscal deficit, debt, public borrowing augmented the government financial discipline.

Liberalization, globalization, privatization and digitization paved the way for progressive industrial policy, competitive exchange rates, business climate, start-up innovations, green clearance mechanism, escrow model support systems. Additionally, regulatory reforms to nurture the Ease of Doing Business through Special Purpose Vehicle (SPVs), Single Window System resulted in 30-35% cost reduction boosting investor confidence.

The free trade tenet of Washington Consensus loses its legitimacy and credibility in the recent years, albeit the Indian recalibration. With increased pace of trade weaponization, protectionism and global value chain disruptions, the free trade orthodoxy stands dismantled. The excessive autonomy of individual nations and the weakening of multilateral institutions poses strategic questions. India's response to the UK's Carbon Border Adjustment Mechanism (CBAM) displays institutional gaps — particularly

the limited carbon market architecture. Building these frameworks will be crucial for green energy transition.

Policy Recommendations:

Based on the London Consensus and the following discussion in Kautilya Economic Conclave (KEC- 2025), the following policy insights can be summarised:

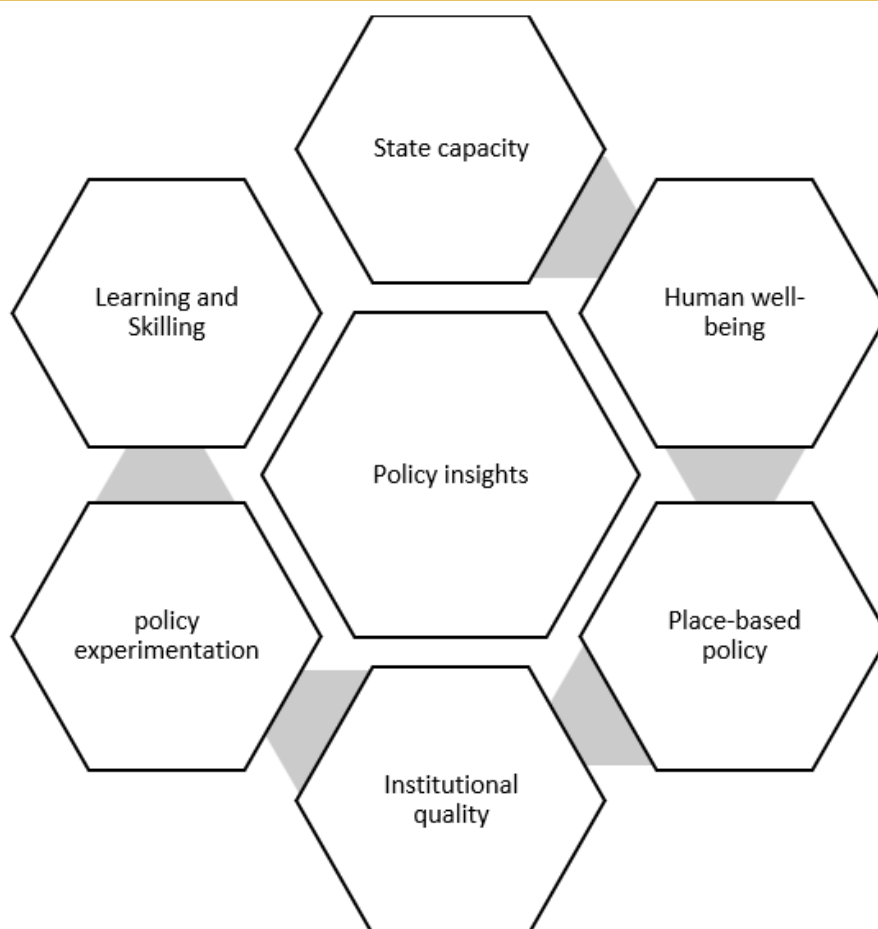
Strengthening of the State Capacity amidst the “market will do wonders principle”. This is prerequisite for efficiency, effectiveness and equity. Institutional competence in digital governance, administration, implementation, taxation, factor reforms... enhances state architecture. Skilling, managerial and technical efficiency of the work force ensure that reforms attain success.

The development of place-based industrial strategies crowds in efficiency and generate scalable benefits. The striking contrast between the Gujarat and Tamil Nadu models of industrial development — each aligned with its localized socio-economic context — underscores the importance of tailoring policy solutions to regional characteristics. Redefining trade policies by focussing on semiconductors, critical minerals, productions and supply chain diversification is important to leverage the benefits of smart globalization. This shall be fostered through bilateral and multilateral trade agreements with regional blocks like ASEAN, BRICS...



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Conclusion

The London Consensus is a recalibrated policy advocacy in pace with the changing time and changing people. While the Washington Consensus focussed on the rightness of macroeconomic goals – prices, exchange rates, inflation, fiscal policy indicators, exchange rates; the London Consensus emphasized on place-based, institution-based, human-based policy reforms. The contextualized and conditional policy reforms offer a departure from the one-size-fits-all policy styles. The remarkable approach is the spread of ideas from Washington in the late 20th century to London and to India.

References

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