Global Economic Leaders Confront a New Era of Industrial Policy

Policymakers brace for more protectionism and the demise of “neoliberalism” if Donald J. Trump is re-elected in the U.S.

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At the annual meetings of the International Monetary Fund and the World Bank this week, Kristalina Georgieva, the head of the I.M.F., expressed a mix of relief and trepidation about the state of the world economy.

Policymakers had tamed rapid inflation without causing a global recession. Yet another big economic problem loomed. Rising protectionism and thousands of new industrial policy measures enacted by countries around the world over the last year are threatening future growth prospects.

“Trade, for the first time, is not the engine of growth,” Ms. Georgieva said at an event sponsored by the Bretton Woods Committee.

Economic policymakers who convened in Washington showed little indication that they might heed the warnings.

Eighty years after the International Monetary Fund and the World Bank were created to stabilize the global economy in the wake of World War II, the role of those organizations and the guiding principles behind their creation has largely fallen out of fashion. The I.M.F. and World Bank were designed to embrace a new system of economic order and international cooperation, one that would stitch the world economy together and allow rich nations to help poorer ones through trade and investment.

But today, those who espouse such “neoliberal” notions of open markets are increasingly lonely voices.

They could soon become even more isolated if former President Donald J. Trump is re-elected. Mr. Trump is promising to upend the rules of international commerce by ratcheting up the kind of trade wars and protectionist policies that characterized his first term.

“In academic and policy circles, neoliberalism is dead,” said Joseph Stiglitz, the former World Bank chief economist who served as chairman of the Council of Economic Advisers in the Clinton administration. “The question is whether the law of the jungle may be even worse than the badly designed rules-based system.”

The idea of neoliberalism was on the rise in the 1980s and peaked in the 1990s, when policymakers in the United States believed that free trade and a smaller role for governments would “lift all boats.” Institutions such as the I.M.F., the World Bank and the World Trade Organization promoted that economic philosophy and pushed for open borders and global flows of money and goods.

But that view has been facing growing backlash as debt distress has spread, austerity measures have backfired and trade barriers have grown more restrictive. Globalization, once a chief objective of Western nations like the United States, has become demonized as companies moved factories and jobs to emerging economies, leaving large swaths of workers behind.

Distrust over global institutions has also been growing in some of the countries those organizations are trying to help.

Protests have erupted in Kenya, Bangladesh and Sri Lanka in recent years over the International Monetary Fund's lending terms, which often require onerous fiscal reforms.

Treasury Secretary Janet Yellen and Ajay Banga, the World Bank president, on Tuesday. Ms. Yellen said globalization without guardrails was not benefiting most people equally. Jose Luis Magana/Associated Press

The World Bank has faced its own controversies and this year undertook an internal investigation into its investments in international educational programs following allegations of abuse. Groups of activists demonstrated outside of the bank's headquarters in Washington this week, protesting its "market-first policy prescriptions" and financing of fossil fuel projects. A World Bank official said the bank is making progress toward restoring trust by bolstering its lending capacity and delivering projects faster.

The W.T.O. continues to be hobbled by a decision made during the Trump administration to forgo appointing members to a critical appeals panel. That decision, which the Biden administration has maintained, essentially broke the

W.T.O.'s dispute settlement system, and has contributed to a surge in trade restrictions around the world.

The fissures in the global economy have been deepening quickly, and this week was no exception.

In Washington, officials from the Group of 7 nations finalized plans to use interest earned on Russia's assets to back a $50 billion loan for Ukraine. On the other side of the world, Russia convened its own "BRICS Summit" aimed at deepening financial ties among developing countries.

"The vision of an unstoppable march of economies worldwide becoming free market-oriented and closely connected through trade and financial integration is being supplanted by greater state intervention and fragmentation of global trade and financial flows," said Eswar Prasad, the former head of the I.M.F.'s China division.

A second Trump administration would probably accelerate these trends. Mr. Trump has proposed blanket tariffs as high as 50 percent on all imports and even higher duties on imports from China.

The policy document Project 2025, which was drafted by some of his former White House aides, calls for the United States to withdraw from the World Bank and the I.M.F. entirely.

The leaders of global institutions have tried to take a measured view of the shifting political winds around the world as they grapple with the rise of populism.

The World Bank's president, Ajay Banga, said ahead of the meetings that he would deal transparently with either future U.S. administration and that he remains focused on fighting poverty, combating climate change and expanding access to health care in developing countries. Mr. Banga also noted that Mr. Trump approved funding increases for the bank while he was in office.

"Every time you go back five or 10 years, there have been very challenging circumstances in the world," Mr. Banga said. "We do find our way through these."

Christine Lagarde, the president of the European Central Bank, said trade restrictions and barriers tended to dampen economic growth. Annabelle Gordon/EPA, via Shutterstock

The economic consequences could be another matter and the merits of trade barriers continue to be a contentious subject at international forums. The I.M.F.'s World Economic Outlook report this week projected that a sharp increase in U.S. tariffs would spur retaliation and reduce global output.

"It's pretty clear that periods of restrictions and barriers have not been periods of prosperity and strong leadership around the world," Christine Lagarde, the president of the European Central Bank, said at an event hosted by The Atlantic Council in Washington on Wednesday. "So whoever in this country is ultimately the president, I think should at least bear that in mind."

Although there has been consternation about what a Trump presidency would mean for economic relations around the world, the Biden administration has also embraced protectionist measures and industrial policy. It does not appear that Vice President Kamala Harris would change course if she wins the election.

In an interview with The New York Times this week, Treasury Secretary Janet L. Yellen made the case for industrial policy. She explained that over time it has become clear that globalization without guardrails was not benefiting most people equally and that the idea that free trade is always good is not a universal principle.

“In the United States, we got to a point where it seemed like unfettered adherence to neoliberal principles was not working to promote prosperity of the substantial fraction of Americans,” Ms. Yellen said. “And this has been true in other countries, and so it has led to the adoption of strategies that are meant to promote a more equitable form of growth and social safety nets.”

This year, the Biden administration imposed steep tariffs on imports of Chinese clean energy products to protect the green technology investments that the United States has been making with funds from the Inflation Reduction Act of 2022.

The European Union and Canada have also put tariffs on Chinese electric vehicles to prevent those cheaper cars from flooding their markets and damaging their electric car industries.

Chrystia Freeland, Canada’s deputy prime minister, said on Thursday that a “reckoning with Chinese mercantilism” was long overdue, and argued that industrial policies are needed for the development of clean energy sectors.

“We have to have a plan for that green transition that involves good jobs,” Ms. Freeland, who is also Canada’s finance minister, said at an event at the Council on Foreign Relations in Washington. “That is why I think we need industrial strategies right now — we do need government investment to sort of facilitate that transition.”

Even the I.M.F., which has long railed against such industrial strategies as being inefficient and costly, appears to be expressing a more open mind. A research paper by fund officials this month allowed that industrial policy can “in principle” help address market failures if carefully designed.

Ms. Georgieva acknowledged that clinging to policies of the past carries its own risks.

“We cannot stay still while the world is changing,” she said.

Alan Rappeport is an economic policy reporter, based in Washington. He covers the Treasury Department and writes about taxes, trade and fiscal matters. More about Alan Rappeport

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