

**Dramatically Changing State-Market Relationship (1)**  
**-- Emerging “New Washington Consensus” --**

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In my view, the international energy situation has reached a historic turning point, influenced greatly by a wide range of coexisting factors including the need for fundamental energy supply and demand structure reform towards carbon neutrality, the comeback of energy security as a top priority challenge amid the Ukraine crisis, the division of the world through deepening confrontation between the United States and China and between the Western and China-Russia blocs, the importance of economic security, growing hopes on innovations and energy reform’s close links with industrial policies and growth strategies.

Under such conditions, the state-market relationship as a perspective to view the international energy situation is changing greatly. I would like to discuss the state-market relationship from various perspectives in a series of reports beginning with this one, although reports on different topics may come between the serial reports.

The first of the series takes up the emergence of a “New Washington Consensus”. What is the New Washington Consensus? While there may be no definite definition of the New Washington Consensus, various experts’ discussions, analyses and views apparently indicate that the word means that the state should take leadership in responding to and overcoming current grave challenges facing the world. The New Washington Consensus thus seems to refer to a view giving priority to the roles of Big Government. The view now attracts attention, particularly in U.S. forums.

As indicated by the word “new,” there has been the Washington Consensus, which has exerted great influence over forums and societies in the world. The Washington Consensus was shaped at the initiative of the U.S. government, the World Bank and the International Monetary Fund from the late 1980s. The consensus clarified the then U.S. foreign economic policy stance urging debt-ridden and developing countries to promote market and structural reform under a small government approach. The Washington Consensus emerged as a guideline for supporting developing countries plagued with a debt crisis in the 1980s. It has been interpreted as a key driver of liberalization, deregulation and competition to promote structural reform in various economic fields.

In a sense, the Washington Consensus took over a market-oriented trend through the rise of Thatcherism or Reaganomics and served as a basic guideline for U.S. foreign economic, aid and development policies as noted above, exerting great influence on the entire world. From the late 1980s to the 1990s, the United States dominated the world in the wake of its victory in the East-West Cold War. After national security was given top priority during the Cold War, winning economic competition became more important than anything else in the post-Cold War era. Market principles were then positioned as the key to winning economic competition. As Big Government was viewed as risking inefficiency and market distortion, competition and liberalization in all economic sectors

were given priority. This trend was applied to energy markets as one of the economic sectors. Liberalization, deregulation and competition promotion waves hit the oil market first and spread to electricity and gas markets, bringing about great market and industry reform.

Before the Washington Consensus and neoliberal economic thoughts and philosophies emerged, however, there was an age where economic policies emphasizing government roles, as advocated by Keynes and/or Keynesian economists, were greatly influential. John Maynard Keynes authored “The General Theory of Employment, Interest and Money” to propose economic policy prescriptions because classical economists failed to provide effective policies in the face of the Great Depression in the 1930s. Keynes came up with a vision to implement aggressive fiscal and monetary policies to generate effective demand in pursuit of full employment. In the United States during reconstruction and economic growth after World War II, the roles of Big Government were emphasized under the then-dominant Keynes’s and/or Keynesian economics. As the world economy was plagued with growth stagnation and high inflation after the oil crises, however, the Washington Consensus and neoliberalism became dominant, emphasizing fiscal discipline and leaving market forces to resolve problems in consideration of government failures.

In this way, the state-market relationship changes over a long time just as the pendulum swings back and forth. A change comes as it is recognized that prescriptions must be changed as conventional policies fail to address new influential social or economic problems.

What is behind the current emergence of the New Washington Consensus as a matter of great interest in the United States? The answer may be the occurrence and impacts of coincident important changes in the international situation as spelled out in the first paragraph. Particularly, a key influential recognition behind the New Washington Consensus may be that the current division of the world as symbolized by confrontation between the United States and China and between the Western and China-Russia blocs is a long-term structural issue. The New Washington Consensus is designed for the United States to win the geopolitical competition, enhance cooperation with allies, tackle climate change and other global issues, and explore cooperation and collaboration with the Global South. To these ends, the United States emphasizes industrial policies such as the Inflation Reduction Act and gives priority to developing supply chains for strategically important materials, goods and technologies while cooperating with allies. Another important viewpoint is that the United States has no choice but to be conscious of China’s rapid catch-up and future tough competition with China in the current situation, which differs from the past situation where U.S. power dominated the world just after the Cold War. The New Washington Consensus apparently indicates that the United States wants the entire world and allies to understand its seriousness about implementing a global strategy, its sense of crisis and the new thought itself.

In this way, a new thought may be spreading from the United States, emphasizing the roles of Big Government to enhance strategic state initiatives to beef up energy security, realize decarbonization, vitalize innovations and secure a stable supply of important materials and technologies through domestic or allied supply chains. If the new thought spreads globally, it may exert great influence on future energy policies, as did the Washington Consensus. If such initiative becomes excessive or develops into extreme nationalism, however, the world may have to pay higher costs, with alliances being shaken, exerting negative impacts on global stability and prosperity. We will have to check how China and Russia—confronting the United States—U.S. allies such as Japan and Europe, and the Global South will react to the New Washington Consensus and what influence the new thought will exert on the world.

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