

*The End of Conventional Wisdom?
Economic Governance after the World
Economic Crisis*

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Abstract

This article examines how the conventional wisdoms of *laissez-faire*, supply-side economic policy discourse have constrained international policymaking, but also how the world economic crisis of 2008-09 led to greater discursive contestation that weakened the influence of this formerly-prevalent discourse. The so-called ‘Keynesian revival’ of the crisis period continues to impact international policymaking, at least to the extent that the supply-side approach is no longer so readily accepted as ‘commonsense’ by many policy actors. Now there is no single set of conventional wisdoms on economic strategy that is uncontested amongst international policy élites. I also examine the effects of ‘repoliticization’ as a political strategy and a tool of politics. Such a discursive strategy can be a highly effective tool for policy actors to achieve political goals.

Introduction

This article analyzes how ‘conventional wisdoms’ on economic governance, especially from the ‘Washington consensus’ and neoliberal policy strategies that became popular after the

1980s, have been undermined by the world economic crisis of 2008-09. This had the effect of increasing doubts about existing economic policy options in a way that could encourage policy innovation now and in the future. Core assumptions have been displaced or at least brought into question by an economic crisis that grew from the rationality of orthodox policy discourse, rather than deviance from it. Consequently the standard solutions no longer seem to offer an obvious path out of the economic crisis, as several national economies continue to endure problems with debt; poor growth; weak housing and financial markets; currency fluctuations; and general pessimism about economic prospects.

The following examines how conventional wisdom and dominant discourses tend to constrain policymakers during normal periods of economic growth, or even during periods of recession in which core elements of the economy still seem to function in a normal way. It argues for a specifically *political* conception of economic policymaking that includes skepticism about dominant discourses and eschews general laws in favor of a focus on the particularities of a context, e.g. within a

specific region or country. The first section focuses on this broad issue by analyzing how ‘repoliticization’ becomes possible during moments of crisis. It also argues that even though there might be pressures to revert to conventional wisdom or the rationalities of dominant discourses once a crisis period has passed, nevertheless good public policymaking, or more broadly ‘good governance’, should include a heightened skepticism about common wisdom and stay focused on contextual factors. The second section analyzes some interesting aspects of the international policy responses to the world economic crisis of 2008-09, including the revival of Keynesian policy strategies and the subsequent debt crises in certain European countries. Such developments have raised new questions about contemporary policymaking trends in the world. The final section examines the long-term consequences of this reevaluation of policy responses to the world economic crisis, including the philosophical question of how public policymakers can achieve long-term policy success without blindly following fashionable economic theories. Instead I argue that they should develop policy strategies that emphasize, and respond to, the specificities of the particular

context in which policies are being applied.

This article presents a philosophical discussion of key issues of economic policymaking following the world economic crisis. It also constitutes a critical discussion of governance and public policymaking beyond questions of economics and political economy, especially concerning the significance of ‘conventional wisdom’ and political discourse for public policymaking. I conclude that a greater emphasis on context, a heightened willingness and confidence to reject core shibboleths of conventional wisdom, combined with a focus on innovation and lateral thinking, should enhance policymaking and lead to more effective governance across the gamut of policy issues that must be addressed in the contemporary world. However, electoral success in twenty-first century politics will be shaped especially by the capacity of political actors to construct discursive strategies that enable them to gain advantages in politics. Policy actors who manage to increase the influence of their favored political discourse and its articulated conventional wisdoms effectively are rewriting the rules of the game to suit their goals.

Beyond ‘conventional wisdom’: repoliticizing economic governance

There are many terms for commonly-held perceptions about the correct or best form of governance for a particular field of policymaking. Terms such as ‘best practice’, ‘commonsense’, ‘accepted norms’ and ‘conventional wisdom’ imply the sedimentation and broad acceptance of particular strategies or practices for dealing with a given issue. Specifically when we talk of the latter, i.e. ‘conventional wisdom’, this implies a commonly-held perception and in scholarly or policy circles it indicates one that is considered appropriate for experts and opinion-leaders in a particular field (Krugman 1996: 725).

Paul Krugman has written some interesting points about the potential consequences of conventional wisdom in economic theory and in scholarly work on economic development. He argues (*ibid.*: 732) that economists and policymakers should not depend on such common beliefs, but instead deploy economic theory and empirical analysis in

a way that remains open to new evidence and, potentially, uncomfortable or challenging findings. However such openness can be difficult to sustain, especially in the face of professional opposition and incentives to conform. Professional prestige and academic research funding can be strong motives in this sense. Also scholars and policy practitioners might find it difficult to engage in some important professional debates without accepting, or implicitly accepting by referencing, some commonly-held assumptions. As Robert Keohane (2002: 14) notes, when discussing his initial skepticism about the popularity of the term ‘globalization’: “[I]t is frustrating to try to row against a strong tide, or to sail directly into the wind. To be heard, the scholar has to speak to the concerns of his era in the language of his era.”

However, conventional wisdom sometimes has limitations and might be brought into question. The following considers how contestation of such dominant discourses occurs, especially during moments of perceived crisis. I should emphasize that discursive contestation is possible at other times but it always depends on whether actors are able to ‘repoliticize’ a particular discursive context. Having noted this

point — and as the poststructuralist political theorist Ernesto Laclau has argued, moments of ‘dislocation’ become more likely during periods of increased political uncertainty, as “events that cannot be symbolized by an existent discursive order, and thus function to disturb that order” (Howarth 2000: 111). Keohane (2002: 265) makes a similar point from a rationalist perspective, with reference to the ‘prisoner’s dilemma’ from game theory, asserting that “under conditions of uncertainty in the real world, the chain of “inheritability” will be broken, and actors’ preferences about future outcomes will not dictate their choices of alternatives in the present” (original emphasis). In other words, even supposedly-rational actors cannot act to maximize their benefits from predicted outcomes if the future is no longer predictable, e.g. during moments of political crisis when key actors and traditional institutional practices might subsequently cease to comply with previous rules or expectations.

This dislocatory effect was indicated by the greater openness to policy innovation of influential actors during the economic crisis of 2008-09. Such a period constitutes an opportunity to challenge the dominance of a particular

discourse, as the policy-constraining effects of a formerly-dominant discourse are weakened and this increases the likelihood that policymakers will consider policy options beyond the usual. The broadly commented upon ‘Keynesian revival’ during 2008-09,¹ as policy actors sought ways to boost world economic growth and also to develop effective new regulatory mechanisms for international finance, happened because the dominant *laissez-faire* policy discourse was discredited by the collapse of the financial sector in the United States after September 2008. It is useful to consider the linkage between this notion of dislocation and Jenny Edkins’ (1999: 126) definition of ‘the political’, when she writes that “the political represents the moment of openness or undecidability, when a new social order is on the point of establishment, when its limits are being contested”. By contrast, she considers ‘politics’ to be “what takes place once the new order is institutionalized... [,] the debate that occurs *within* the limits set by that order” (original emphasis). Returning to my example, ‘politics’ in this definition implies the *business-as-usual* international policy discourse before the financial markets slumped in September 2008.

¹ This ‘Keynesian revival’ is discussed below.

After the crisis deepened, there was an interruption of ‘the political’ because of widespread concern about the general functionality of international markets. We cannot be sure of the long-term consequences of this ‘political’ moment, indeed the broadened and contested mainstream policy discourse from the period 2008-09 might be superseded by a reassertion of the earlier boundaries of ‘politics’ — e.g. through the reconstitution of pre-crisis relations of power between actors; the reassertion of earlier policy assumptions or ‘conventional wisdom’; and/or marginalization of competing claims from Keynesian-influenced policymakers, economists and scholars that came to the fore during the crisis period. However this period of heightened discursive contestation has weakened the “chain of ‘inheritability’” that Keohane (2002: 265) mentions, so that any reassertion of that discourse would likely be harder to consolidate and more susceptible to continued contestation from Keynesian or other policy perspectives. International economic policymaking will, in this case, continue to be more marked by discursive contestation than during the preceding decades, when a broadly ‘neoliberal’ policy discourse was widely

endorsed by policy élites.

Edkins (1999: 125-43) argues that what she calls “repoliticization”, which implies increased public awareness of political contingency and involves the disturbance of a sedimented discursive formation, could enable actors to challenge dominant discourses even when there is no apparent crisis.² This indicates the strategic consequences of discursive contestation and implies that repoliticization is possible at any moment, even though it is easier during perceived periods of crisis. Linked to this, she presents an interesting discussion of Stuart Hall’s analysis of ‘Thatcherism’ in Britain during the 1980s. Hall (1998: 9) emphasizes that Thatcherism was transformative, in terms of its goal to “make us think and speak its language as if there were no other”. This indicates the strategic and persuasive content of political discourse, something Hall claims the British left had failed sufficiently to appreciate — though, in his opinion, Thatcher’s government had understood its significance. Thatcher’s

² Edkins’ usage of “repoliticization” clearly has much in common with Laclau’s notion of ‘dislocation’ (Howarth 2000: 111) and Keohane’s (2002: 265) claims about the consequences of “conditions of uncertainty in the real world”.

government managed in the 1980s to effect a repoliticization of the prevailing British political discourse on the relative merits of the welfare state and the role of the private sector, especially what had been a fairly broad consensus in the country since 1945 about the benefits of a strong welfare state and government intervention to support British industry. The ‘Thatcherite’ repoliticization of this discourse, along broadly ‘neoliberal’ philosophical lines, was sustained beyond the restricted time-frame of its own administration and the early 1980s debates about the failures of British economic policy of the 1970s. Indeed there has been an enduring influence, with core elements of ‘Thatcherite neoliberalism’ arguably being incorporated in the policymaking and policy discourse of each subsequent British government. Hall’s analysis of the discursive strategies deployed by the Thatcher government to achieve this long-term influence demonstrates the potential impact of an effective strategy of repoliticization.

My discussion of dislocation and repoliticization indicates how the discursive context of a political or economic crisis, especially, facilitates significant policy adjustments and broadens the scope of policy

debate, potentially with long-term effects beyond the moment of crisis. However, this political contingency actually exists *at all times*, not just during crises. This is because the discursive context of social relations is never completely fixed, just as perceptions, attitudes and societies are never static. The contingency of policy choices might become more evident during moments such as the world economic crisis of 2008-09, but it is still possible to deploy strategies of repoliticization at other times to influence policy debates. This has important implications for political strategists and scholars, especially concerning the benefits of deploying discourse-analytic tools to achieve analytical insights and political goals.

Discursive contestation after 2008

This section examines the international policy responses to the 2008-09 economic crisis. It demonstrates the significance of dislocation, political contingency and repoliticization for subsequent policy strategies and actions by leading governments and international

institutions. It also indicates that cooperation between states is easier to achieve during crisis periods. A key focus here is how the prevalent supply-side economic policy discourse was sufficiently problematized after September 2008 for Keynesian policy strategies to be applied in international policymaking to an extent that had not happened since the 1970s.

It would be simplistic to argue that mainstream international policy responses to the world economic crisis, or what some have labeled ‘the great recession’, can be divided into two distinct phases: a broadly-Keynesian strategy in 2008-09 to boost world economic growth, followed by a return to neoliberal orthodoxy to combat fears of sovereign debt crisis and, in the cases of Greece, Ireland and Portugal, actual debt crises. In fact, since the initial responses in September 2008 to the international market collapse that month, there has been continual discursive contestation — over strategic and short-term policy decision-making; on broad issues of international and domestic strategy; about the potential benefits of intergovernmental coordination through fora such as the Group of Twenty Nations (G20); also the classic debate about monetary stability versus economic

growth, etc.. However there was a noticeable trend that indicated a switch in international priorities as the economic crisis became less threatening by the end of 2009. By that time, global ‘recovery’ rather than ‘survival’ had become the focus for leading international institutions and fora such as the International Monetary Fund (IMF), the G20 and the European Union (EU); amongst leading wealthy states such as the United States, Britain, France and Germany; also for influential developing countries such as China, Brazil and Mexico.

I will present a brief survey of the evidence from this period to demonstrate the general context of discursive contestation. This will then be contrasted with earlier international discourse on the ‘Asian financial crisis’ of 1997, demonstrating that some of the earlier conventional wisdoms on economic strategy were abandoned during the later economic crisis. The dramatic discursive shift after September 2008 is indicated by the prevalent conventional wisdom before, amongst academics and policy actors, that Keynesian remedies were no longer applicable in the complex economies of the twenty-first century, partly due to the perceived effects of economic globalization (see Bisley 2007: 57;

Blair and Schröder 1999; Giddens 2008; Skidelsky 2005: 25). This discourse contrasted greatly with the ‘crisis period’ policy discourse of late 2008 and early 2009, when a ‘Keynesian revival’ seemed to be heralded by the dramatically increased interest in the man and his ideas,³ not to mention the application of his economic strategies, especially by the British and US governments but also as the basis for the crisis response strategy adopted at the G20 London Summit of April 2009. Indeed, leading scholars, policymakers, governments and international institutions such as the IMF and World Bank all began to advocate Keynesian policy strategies as the best remedy for the economic crisis during this period (see Giddens 2010: 3-4; Stiglitz 2010: 215, 231; HM Treasury 2008: 3; G20 2009; Strauss-Kahn 2009). Actions followed words, culminating in the aforementioned strategic plan adopted by the G20 in April 2009, which included the combination of a fiscal stimulus strategy, primarily implemented under the auspices of the IMF; plus enhanced international economic monitoring and coordination mechanisms, especially the creation of the Financial Stability

Board (FSB) (G20 2009). This was the high point in international cooperation in response to the economic crisis. It was compatible with the traditional Keynesian emphasis on public deficit-spending to boost growth during a recession, plus with Keynes’ personal belief in the benefits of using international institutional mechanisms to resolve problems in the world economy. Forewarnings about the drastic consequences of a failure to achieve an international strategy, supported by the ominous analogy with the failure of international negotiations on economic recovery in London in 1933, had increased the pressure on negotiators to reach agreement or else face potentially drastic economic consequences.

The international strategy adopted in April 2009 was very different from the strategy that western countries and western-dominated institutions, especially the IMF, had advocated for Asian countries during the 1997 Asian financial crisis. Accusations of hypocrisy and double-standards have been leveled at some of the G20 countries and the IMF for the fact that fiscal stimulus was advocated as a counter-cyclical solution in 2008-09, when the wealthy states were facing economic crisis; but, by

³ The perception of a ‘Keynesian revival’ during this period also is evidenced by a google search for the phrase.

contrast, during the 1997 Asian crisis the EU countries, the USA, the IMF, etc. had instead advocated the cold, harsh medicine of the IMF's structural adjustment programs, with their austerity measures and deficit-reduction emphasis (Stiglitz 2010: xiv-xx). Thus, conventional wisdoms from the 'Washington consensus' (Williamson 1990) period of the 1990s were brought into question by the policy responses of 2008-09. Some might claim that the IMF's structural adjustment medicine was just too strong for the wealthy countries to take; however, the fact that the crisis in the US financial sector was a consequence of following the core rationality of orthodox *laissez-faire* economic policy strategy implied that the same philosophical approach might not solve its own failings. Moreover, the political context had changed. The 'Washington consensus' had been increasingly criticized for its perceived failings, especially as a strategy in response to some of the developing world financial crises of the 1990s, e.g. in Mexico and East Asia (Stiglitz 2010: xx; Held and McGrew 2007: 226-27; Krugman 1995: 30-31). Even the IMF seemed to have turned away from its 1990s approach under the leadership of Dominique Strauss-Kahn (Lütz and

Kranke 2010: 2, 19).

Despite the G20 agreement in April 2009, there had never been complete consensus amongst international policy élites about the benefits of fiscal stimulus measures. The German government of Angela Merkel, in particular, had been skeptical about the inflationary risks of such a strategy. Once the British elections of May 2010 led to the establishment of a Conservative-led coalition government, the British effectively reversed the economic strategy of the previous Labour administration and introduced an austerity budget designed to reduce public spending, rather than continue the latter's fiscal stimulus approach. This left Barack Obama's government more isolated on the issue of a global fiscal stimulus strategy by late 2010, though 2011 has seen a switch by his administration to a greater emphasis on the need to reduce the US deficit. Certainly the EU states became increasingly focused on deficit-reduction in the second half of 2010, especially following the shock of the Greek debt crisis and the need for an EU—IMF bail-out in May 2010. This combined with the growing sense that some of the other EU economies, such as Ireland, Portugal and Spain, also were under growing pressure from

international markets concerned about their public debt levels.

The international economic situation continues to be unstable, with current uncertainty about the sustainability of the recovery in influential economies like the US and UK indicating that there might be a need for further policymaking adjustments in the coming months (IMF 2011). Whilst it would have been difficult to imagine a Keynesian strategy being advocated by leading international policymakers prior to 2008, now there is a continuing tension between this and the earlier orthodoxy of *laissez-faire*, supply-side economics. Neither approach is absolutely dominant; arguably this is a period of greater discursive contestation in international economic policymaking and scholarly circles than at any moment since the 1970s. The ‘Keynesian revival’ of 2008-09 may have slowed, or partially reversed, but one important impact is that a simplistic advocacy of deregulation is no longer politically-expedient even in the US.

Lessons for public policymakers

The core lesson from my analysis is that conventional wisdoms should be treated with some skepticism, especially because they do not always provide the best solutions. Rather than present absolute empirical or analytical certainties about the world, they simply denote the consolidation and influence of particularly fashionable claims in scholarly research and policy discourse. These might provide some policymaking benefits for a period of time, but also they could have more negative effects, especially by constraining thought and potentially preventing the adoption of more effective policy options.

I have already discussed the advantages of discursive strategies of repoliticization for overcoming these constraining effects of conventional wisdoms. The example of how ‘Thatcherite neoliberalism’ displaced the broad postwar British consensus on the relation between the state, citizens and the private sector provides a useful demonstration of the potential significance of repoliticization. Similarly, during the 2008-09 economic crisis there was a

repoliticization of prevalent assumptions about economic policymaking, one that was particularly significant in the UK and US, and which concerned many issues — especially public deficits, financial market regulation, credit markets and the best strategy for the housing sector. However we cannot yet be sure whether this repoliticization will have the kind of long-term consequences that Thatcher’s government achieved with its own strategy of repoliticization. A further issue to discuss is the relevance of the notion of ‘bounded rationality’, deployed by some scholars of behavioral economics (Conlisk 1996; Kahneman 2003) and rational choice theory (Simon 1955; Sen 1977), for my conception of ‘conventional wisdom’. References to ‘bounded rationality’ have much in common with what I have written about the constraining effects of dominant discourses, implying that rationality is always limited because actors accept certain conclusions or assumptions without a detailed investigation into their actual validity. However ‘bounded rationality’ implies something that is not always expressed when discussing the effects of a dominant discourse, which is the way that individuals might choose to accept a conventional wisdom or someone else’s

judgment partly because this simplifies the thought process. This might have practical benefits, especially by providing a short-cut to answers, which might appeal both to policymakers and people in general when time-limits are a significant constraint in decision-making, and delays potentially costly (Conlisk 1996: 671).

In light of the preceding point, it is important to note that my emphasis on the advantages of problematizing conventional wisdoms in recent economic governance provides lessons especially relevant for political strategists, advocates or scholars *wishing to repoliticize* a particular policymaking context. This implies a political strategy deployed to displace the constitutive effects of conventional wisdoms that are articulated within an opposing political discourse. Discourse analysis provides useful analytical tools for such political goals; also it helps us understand how a dominant discourse can have the effect of constituting the limits of rationality, thus of the world in which we live, regardless of empirical or analytical evidence. Moreover, when considering the constitutive effects of a dominant discourse on economic strategy, a common mistake is to apply

such theoretical templates to a particular context without considering whether it is the best strategy for the city, region, country, etc. in question. Policymakers should consider the potential lessons from fashionable policy discourses and also learn from examples of policy practice and implementation in other contexts. However, effective policymaking must maintain a core focus on the needs of the specific context in which policies are being applied, because conventional wisdoms might be problematical if applied without in-depth, contextual analysis of their potential effects in what could be an unsuitable location or policy area.

Much of this discussion has focused on what Edkins (1999: 126) would call ‘the political’; however, there are some key lessons here for the practice of ‘politics’. Again Thatcher is a useful example, as the repoliticization of British policymaking conventions that her government achieved in the 1980s contributed greatly to its success in British politics, helping to sustain consecutive Conservative governments for an impressive 18 years in office. As noted earlier, displacing the conventional wisdoms of one dominant discourse with another set of conventional wisdoms can be a highly successful

strategy in politics. This might include discursive practices such as rhetorical redescription (Skinner 2002: 279-80),⁴ when an actor manages to popularize an alternative interpretation of certain signifiers, e.g. ‘modernization’, ‘progress’, ‘best practice’, etc. so that they become equated with something quite different from what was previously commonly accepted. This was demonstrated by Krugman’s (1996) examination of the apparently cyclical trends in the interpretation of ‘best practice’ in international discourse on economic development policy. If done effectively, managing to displace one political discourse for another can produce discursive resources that are very useful in politics. This might include the construction of new forms of political legitimization; more broadly, it might constitute a discursive context that generally is more favorable to the political goals of an actor that manages to increase the influence a preferred political discourse, or at least reduce the capacity of the opposed discourse to constrain debate or dominate the political-discursive context.

⁴ Quentin Skinner’s (2002) analytical usage of ‘rhetorical redescription’ is highly compatible with the Nietzschean philosophical tradition of examining how our knowledge of the world *is constructed rather than revealed*.

Conclusion

A crucial consequence of the 2008-09 world economic crisis has been a renewed contestation of the earlier prevalent orthodoxy of *laissez-faire*, supply-side economics in international policymaking circles. This does not necessarily imply *the end of conventional wisdom* forever; indeed, new conventional wisdoms might replace the old. However, this ‘post-crisis’ context does indicate a weakening of the conventional wisdoms that were articulated around this once-dominant policy discourse. This is partly because the so-called ‘Keynesian revival’ continues to influence international policymaking, at least to the extent that the supply-side approach is no longer so readily accepted as ‘commonsense’ by many policy actors.

A key focus in my analysis is the significance of ‘repoliticization’ as a politico-discursive strategy. Certainly the broad perception of crisis after September 2008 made such a repoliticization of economic policymaking

easier to achieve, but there are crucial lessons here for policymakers that are relevant even in more normal times. Discursive strategies intended to repoliticize particular policy contexts can be highly effective, as demonstrated by the Thatcher government in Britain. If successful, repoliticization of a policy discourse enables policy actors to construct a new language of politics (see Fairclough 1999), redrawing the boundaries of political discourse such that their own goals can constitute a new ‘mainstream’ or orthodoxy, thus encouraging others to accept them as the most legitimate and effective practices of governance in their particular policy field.

However, the general aim of this analysis is to challenge policymakers to question the core assumptions of influential policy discourses. Whilst conventional wisdom is not always flawed, it does often have the effect of constraining critical thought, of restricting the scope of debate on a particular policy area. This analysis has focused on economic policy discourse, but also it has broader implications for how we think about all policy fields. Blind faith in any particular model or conventional wisdom should never be an excuse not to analyze the

empirical evidence, as noted by Krugman (1996: 732). Context is important, so neither should policymakers automatically accept conventional wisdoms that are meant to be applied generally, rather than being linked to the analysis of a particular, localized situation. Conventional wisdoms often end up being contested and displaced by other conventional wisdoms. However, the current climate in international economic policymaking continues to be sufficiently open for a broader range of discourses to have some influence. This indicates that there is still hope that innovative policy solutions might be found that help to improve the standards of international economic governance. This might even be sufficient to prevent another serious economic crisis in the foreseeable future.

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