PARTECIPAZIONE e CONFLITTO
The Open Journal of Sociopolitical Studies
ISSN: 1972-7623 (print)
ISSN: 2035-6609 (online)
Coordinamento SIBA - University of Salento

PArtecipazione e COnflitto
http://siba-ese.unisalento.it/index.php/paco
ISSN: 1972-7623 (print version)
ISSN: 2035-6609 (electronic version)
PACO, 14(1) 2021: 38-56
DOI: 10.1285/i20356609v14i1p38

Published 15 March, 2021

RESEARCH ARTICLE

Covid-19 Pandemic and the Fiscal Strategy of the International Monetary Fund: Towards New Directions in the Global Political Economy?

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ABSTRACT

This article seeks to contribute to the analyses of the impact of the Covid-19 on the global political economy. It does so through a qualitative content analysis of the key policy documents published by the International Monetary Fund (IMF) since the outbreak of the pandemic crisis. The IMF has been, historically, one of the main designers of international macroeconomic governance. The paper focuses on fiscal policy, which retains a central place in the strategy of the IMF to deal with the pandemic and especially for the post-pandemic recovery phase. The analysis of the documents of the IMF contributes (i) to appreciate the interpretation of the nature of the pandemic crisis through the lenses of a prominent international financial institution, (ii) to explore the policy strategy outlined to deal with the pandemic emergency, (iii) to assess possible changes at the level of policy, and accordingly, future directions in global political economy. Evidence suggests that fiscal stimulus, public investment and planning will likely have a prominent position in the future directions of the IMF policy advice.

KEYWORDS: Covid-19; International Monetary Fund; Fiscal Policy; Planning; State intervention

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1. Introduction

The impact of the Covid-19 pandemic on the global economy is unparalleled in terms of extension and depth of the recession, with widespread disruptions of global supply chains and fall of aggregate demand. Lockdowns, imposed by governments to stop the spread of the virus and avert the overload of national health systems, had negative effects on supply, demand, and business confidence, spanning both the financial and "productive" dimensions of the economy. Thus, at stake is what many consider a "whole-of-the-economy" crisis that will likely leave national economies – across advanced, developing and low-income countries – in a very different position than it found them, imposing new issues and, consequently, the need for new solutions. In addition, the coronavirus-related crisis has hit the global economy after a decade of sluggish growth and secular stagnation – this being another factor which led governments and, above all, international financial institutions (IFIs) to put in question at least some of the main assumptions that have guided lending policy doctrine before the Covid-19 pandemic.

The aim of this article is to understand whether, after the outbreak of Covid-19, potential new future directions and discontinuities in the global political economy are emerging. To do so, we analyse the policy strategy developed by one of the main IFIs, the International Monetary Fund (IMF), to tackle the pandemic crisis and the "post-pandemic" economic recovery. Since Bretton Woods agreements (1944) to present times, the IMF has been one of the main institutional designers of the international financial architecture and global economic governance (Rogers 2012). Through an in-depth exploration of the policy documents produced by the IMF during the pandemic, the paper aspires to make several accomplishments. First, to understand the nature of Covid-19 crisis through the lenses of a key international institution – the IMF. The interpretation of a crisis – with both its past developments and future projections – is indeed a "crucial exercise that helps explain the policies adopted in response" (Moschella 2010, 136). Second, to explore the policy strategy outlined by the IMF to deal with the first phase of the emergency (see also Stubbs, Kring, Laskaridis, Kentikelenis and Gallagher (2020) for an early overview of the financial arrangements made by the IMF with developing countries). Third and more importantly, to assess possible changes in the policy advice and strategy devised by the Fund especially for the recovery phase. With regard to the latter, our main indicator is fiscal policy. Fiscal policy can tell us whether a possible policy change is *in a phase of further consolidation* towards some broader reform of austerity doctrine (against a decade-long backdrop of sluggish growth and rising inequalities) in relation to issues including public investments, the role of the state, and economic planning. In this respect, it is worth stressing that already after the great crisis of 2008 the Fund relaxed its tight fiscal consolidation discipline, with a more open stance towards discretionary fiscal policy and 'smart' fiscal consolidation (Clift 2018; 2019).

In the paper, we add on existing literature by bringing fresh evidence to explore if some of the changes in fiscal policy emerged after the great financial crisis (GFC) of 2008 are further consolidating and expanding, in what directions, and with what (potential) long-term consequences. On more conceptual/theoretical grounds, the paper conceives the policy strategy devised by the IMF in the context of Covid-19 emergency as part of a broader process of consolidation of an increasingly *hybrid* policy paradigm, which combines elements of Keynesianism – especially in terms of a more active fiscal role of the state (Clift and Tomlinson 2007; Strange 2014) – within a overarching neoliberal commitment to long-term preservation of an open global market economy.

The paper is structured as follows. The next section offers an overview of international financial institutions – among which the IMF stands out – and their role in shaping the global political economy. Afterwards, we discuss the response of the IMF to the global crisis of 2008, with a special emphasis on fiscal policy. This focus is functional to advance towards the central and main section, in which we analyse in greater detail the IMF policy strategy to tackle the Covid-19 pandemic and its aftermath. Before the concluding remarks, we critically discuss the possibility of a policy change in IMF strategy and future direction in the global political economy.

2. International financial institutions[1] and the global political economy

The making of the global political economy would not be understandable without taking in full account the key contribution of international financial institutions, such as the World Bank, the World Trade Organization, and the International Monetary Fund (the "unholy trinity", following the definition of Richard Peet, 2009). Since their creation with the Bretton Woods agreements (1944), IFIs have been critical players in structuring and maintaining the global financial architecture and economic governance through lending policy and practices, and via a highly technocratic view – an unparalleled "global" epistemic authority (Woods 2006) – of economic development and change. Through lending conditionality on the one hand, and the technical advice on the other, IFIs exert influence over the policy choices at national level (Broome 2015). Accordingly, given their quasi-monopoly of international economic expertise and technocratic authority, and, consequently, the power to impose an "official" economic doctrine, IFIs played a key role in shaping both the "development project" (late 1940s to early 1970s) and the "globalization project" (1980s to 2000s) (McMichael 2016). Importantly, IFI's action in structuring the global political economy has been influenced by the hegemonic role of the US, to the extent that "since their original creation both the IMF and the World Bank have become more beholden to their most powerful member states and more susceptible to direct U.S. influence" (Woods 2006, 27).

Particularly since the 1980s, the US influence was so remarkable that the policy menu developed by the World Bank and the International Monetary Fund was indeed labelled "Washington consensus" (Williamson 1990; also Babb 2013). Under the influence of neoclassical theory, which assumes that (i) market is efficient and the state is not, (ii) capital mobility and the advance of globalization is good, and (iii) monetary policy has the priority over fiscal policy (Saad-Filho 2010, 4), the Washington Consensus framework advocated for a range of policies such as, among others, "fiscal restraint, reduction of subsidies, broadening the tax base, interest rate liberalization, exchange rate liberalization, liberalization of international trade restrictions, privatization, and civil service retrenchment" (Broome 2015, 8-9; see also Cowling and Tomlinson 2011). Thanks to the consolidation of neoliberal ideology and the establishment of neoliberal governments in countries such as the U.S. and UK in the early 1980s, this policy mix was deemed to be universally applicable (Williamson 1990), and in fact it drove the structural adjustment programmes across developing countries (Peet 2009) and other countries marked by debt crisis (such as Argentina and Chile).

The adjustment strategy soon proved to be unsuccessful in restoring growth and allowing for debt repayment (Fine, Lapavitsas and Pincus 2003). The countries involved into the Washington Consensus "therapy" shrank into stark recession while their debt position worsened (Sheppard and Leitner 2009). The discontent for the Washington Consensus policy mix increased during the 1990s, with growing protests and resistances within the state and civil society (Saad-Filho 2010). The array of failures and widespread contestations at the local

[1] Despite this work focuses on the case of the International Monetary Fund, in this section we analyse jointly the World Bank and the IMF. Particularly since the 1980s onwards, these two international institutions operated in close connection and often with overlapping functions and roles. For a detailed reconstruction of the history of the World Bank and IMF see Woods (2006).

level, along with the outbreak of the Asian financial crisis in 1997, pushed IFIs to (partially) revise the policy approach developed since the 1980s, mostly based on tight economic ("structural") reforms and addressed only to market forces. Especially from mid-1990s, the IMF and the World Bank started to develop a more comprehensive approach to reforms – the so-called "second generation" reforms – by shifting the focus towards good governance and state institutions (Wade 2002). In a series of key publications (World Bank 1996; 1997; 2002; IMF 1997), international institutions addressed domestic policymakers to implement institutional reforms and improve the overall quality of governance, advocating «a more comprehensive agenda that emphasised good governance, regulatory reforms, and social sustainability» (Güven 2018, 2). Stable and strong institutions came to be regarded as the necessary counterpart of sound financial and monetary policy, a necessary framework for the development of market economy and market-led growth (Sheppard and Leitern 2009, 187-89; Saad-Filho 2010). To be sure, this new agenda – identified as the *post*-Washington consensus (see Stiglitz 2002, the main advocate of the change) – did neither foster a state-led development, nor called for a reduction in the scope and pre-eminence of market economy. Rather, it tried to improve the quality of state institutions *for* the market, overcoming the naive "state vs. market" dichotomy and regarding both of this two domains as strictly interconnected. According to a key document of the World Bank entirely dedicated to the state, we read that «the state is essential for putting in place the appropriate institutional foundations for market. And government's credibility [...] can be as important for attracting private investments» (1997, 4; see also IMF 1997). In specific relation to the IMF and its sponsored "good governance" approach, "better governance would produce financial rewards and was essential for financial stability" (Thirkell-White 2005, 2).

Therefore, some noted (Saad-Filho 2010; Fine, Van Waeyenberge and Bayliss 2011) that the post-Washington Consensus did not entail a paradigm change compared to the Washington Consensus (also Babb 2013), as the policy advice and practices of IFIs continued to be rooted in mainstream economics and within a strong vision of market-led development. On the other hand, and more recently, other authors also stressed the (growing) internal debates and positions within the Fund, which rather than being a sort of one-size-fits-all bastion of neoliberalism is internally characterised by a more heterogeneous repertoire of macroeconomic beliefs including Keynesianism, the Neo-Classical Synthesis, the New Classical Economics and the New Keynesian Macroeconomics (see Clift 2018), and even by tensions and contradictions (Grabel 2017) – though, it is worth stressing, all falling within the mainstream, namely "within the parameters of a socially constructed and relatively limited range of acceptable or respectable economic ideas upon which the Fund is inclined to draw" (Clift 2019, 8). While the global financial crisis seemed to have opened spaces for "progressive" transformations (Strange 2014), the "economic doctrine core" of IMF policy advice did not change on *structural* grounds; yet, in the literatures it is also discussed the increasing narrowing of such policy advice over time by – importantly – focusing on fiscal policy rather than on structural reforms as privatization, deregulation and liberalization (Broome 2015; Ban 2015; Ban and Gallagher 2015). In this specific respect, Clift pointed out that the rethinking of fiscal policy after the crisis applies only to advanced economies with *fiscal space*, and in the context of the post-global financial crisis recessionary conditions – a change "modest but significant" (Clift 2019, 1) especially with respect to the debate on austerity doctrine.

In the next paragraph we analyse in greater detail the IMF response to the global financial crisis of 2008, with a particular focus on fiscal policy: a necessary step indeed to understand if, and to what extent, the current policy strategy may represent a more substantial departure from the policy menu developed since the outbreak of the pandemic emergency, and towards its aftermath.

3. The IMF vis-à-vis the global financial crisis of 2008

Similarly to what is happening with the current Covid-19 crisis, also the financial crisis of 2008 severely hit the global economy and pushed international institutions, the IMF in particular, to put in question the overall policy strategy as developed since the 1990s (see the special issue of *Governance* (2015)). In general terms, according to the Fund the causes of the financial crisis of 2008 were especially related to the lack of market discipline, in the form of excessive leverage and risk tacking, poor financial regulation, and lack of global oversight. In other words, the loosening of controls on capital movements led to an asset price bubble and accumulation of external imbalances (IMF 2009, 9-10; see Moschella 2010, ch. 6), namely the sources of the subprime crisis, which soon after turned into a global financial crisis (triggered by the failure of the US investment bank Lehman Brothers). Importantly, the subprime crisis "called into question the contours of the international financial architecture" as it "was not just a financial and economic crisis but a political crisis because it called into question the principles of international financial cooperation among states" (Moschella 2010, 121). Actually, the question of capital controls and the possibility to introduce a tighter regulation on capital movements – coupled with a minor emphasis on capital liberalization and marked-led liberalization – was one of the main fields in which a policy change would eventually set to emerge (Chwieroth 2014; Vetterlain and Moschella 2014).

Despite the depth and consequences of the great recession, some authors, as already noted, stressed the substantial continuity in the trajectory of the Washington Consensus (Güven 2012; Carroll 2012; Babb 2013) and its core economic policy. Others shed light on the increasing narrowing of the scope of IMF lending policy after the great crisis, whereby "rather than promoting one-size-fits-all structural reforms for borrowers facing different economic challenges, the IMF has shifted 'back to basics' with a narrower focus on the promotion of fiscal consolidation" (Broome 2015, 19). Others, zooming in on a more proactive fiscal policy devised by the IMF, conceptualised it as a form of *contingent Keynesianism* applied only to advanced economies and in the wake of the recession, and based on "fiscal policy recommendations [consisting of] targeted social transfers to benefit lower earners and poor and vulnerable social groups with a higher propensity to spend" (Clift 2019, 18). Or, following Strange (2014, 34), as an emerging typology of *ordo-Keynesianism*, namely a combination of "ordoliberal constraints with more sophisticated Keynesian principles designed to manage the market and balance up growth over the long term, while also retaining the openness demanded by a globalised political economy".

As the debate already testify, the question of fiscal consolidation, and fiscal policy more broadly, is analytically relevant for several reasons. First of all because "fiscal policy, or the making of decisions about how states collect and spend money to influence the economy, is at the heart of democratic politics itself" (Ban 2015, 167). Second, because fiscal policy is one of the indicators of change adopted by our analysis and helps us to understand whether a change in *long-standing* assumptions about fiscal austerity and retrenchment are changing substantially.

With specific respect to the IMF and fiscal policy after the great crisis of 2008, Cornel Ban noted that

> the Global Financial Crisis and the Great Recession have not led to a "Berlin Wall" moment for the IMF's doctrine on fiscal policy. Instead, the Fund made adaptive changes to its precrisis policy status quo. An older emphasis on maintaining states' credibility with financial markets remained the primary goal of policy, but this goal now had to cohabit with greater acceptance of discretionary fiscal stimulus programs and an emphasis on *gradual* fiscal consolidation where fiscal space for stimulus was limited (2015, 179).

After the crisis of 2008 the IMF partially and gradually started to consider relaxing tight austerity doctrine, yet without dismissing the overall priority of fiscal stability and "smart" long-term fiscal consolidation (more below). In fact, immediately after the GFC the Fund developed a strategy based on four pillars: «(i) reliance on temporary or self-reversing measures in fiscal stimulus packages; (ii) medium-term fiscal frameworks envisaging a fiscal correction, once economic conditions improve; (iii) growth-enhancing structural reforms; and (iv) a firm commitment to contain the fiscal costs stemming from population aging» (2009, 37). Crucially, the intervention of the state through fiscal policy action was devised as necessary insofar as it would sustain the collapsing private sector, even if this may lead to the deterioration of the deficit-to-GDP ratio and public debt. This intervention was conceived to be *temporary*: as soon as the crisis would be over, the fiscal consolidation programme had to be restored. In this respect, the IMF's strategy advised for a mix of "smart" fiscal consolidation, namely favouring a balance between growth and fiscal adjustment, and structural reforms – especially labour and pensions – to boost growth, thus returning to more orthodox avenues of neoliberal and austerity policy (IMF 2013, 19-20). This is testified, among other historical events, by the unfolding of the Greek crisis (2014) and the associated "*troika* therapy"[2] – even if, interestingly, some noted that in this case the EU proved to be more orthodox in terms of austerity policy compared to the IMF (see Rogers 2012, ch. 8; Hodson 2015).

The post-2008 phase signalled a limited adaptation of policy orthodoxy by the IMF, within structural continuities and with the priority assigned to fiscal stability and smart fiscal consolidation, and structural reforms. To Cornel Ban fiscal policy did not entail a wide-ranging paradigm shift since the "Fund did not experience the kind of generational change it experienced during the 1980s when postwar neo-Keynesians retired and made room for a generation of economists who had been shaped by the New Classical revolution of the 1970s" (Ban 2015, 168-169; see also Grabel 2011). On the other hand, others also noted that the specific role of the state (especially with respect to fiscal stimulus) came to be regarded as basically subservient to the overall preservation of market framework, while the factor of planning did not even emerge as a possible option. "In the wake of the crisis" - as Fine, Bayliss and Van Waeyenberge wrote (2011, 270) - "whilst both the World Bank and the IMF have emphasised the necessity of providing safety nets to the vulnerable and of preserving economic and social infrastructure, the suspicion must be that this is designed to rationalise state support to private provision". In other words, the expansion of state budget and the growing debt of public sector aimed to preserve the private sector, rather than designing an alternative route of economic development.

About a decade ago, in their analysis of global capitalist governance after the Washington Consensus (and global crisis), Sheppard and Leitner skilfully noted that "neoliberalism, as we know it, is in question. The current crisis has made Hayekian nostrums unpopular, but faith in the market runs deep, and it will probably take a decade before it becomes clear what supplement emerges to manage this crisis" (2010, 193). While in the ten years following to Sheppard and Leitner's prediction policy "supplements" hardly can be conceived as a wholesale paradigm change (despite the growing distrust towards orthodox neoliberal policy, and in the face of growing societal imbalances), the Covid-19 may be one of those historical events that may speed-up processes of more substantive policy change.

[2] Greece was the first Eurozone country to receive financial support by the IMF in 2010, followed in the three years after by Ireland, Portugal and Cyprus.

4. The IMF and the policy response to the Covid-19 pandemic

After more than ten years of sluggish growth and rising inequalities, the Covid-19 pandemic spread throughout the world and triggered the worst economic crisis since the Great Depression. States and international institutions – the IMF being at the forefront – reacted quickly by deploying a set of unprecedented fiscal and monetary policy measures. The IMF, which immediately recognised the unprecedented nature of the crisis, developed an ambitious and comprehensive strategy aimed, in the short run, to tackle the unfolding and immediate consequences of the emergency and economic depression, while, in the medium term, to put in action a full-blown political economy framework for the recovery phase. As we show in full-length below, especially this second-stage policy strategy reveals some important elements concerning a possible alternative route from the lending principles of the post-Washington consensus and its policy menu.

In what follows, we analyse in particular the flagship documents – that is, *Fiscal Monitor* (2020a, 2020b), *World Economic Outlook* (2020c, 2020d), and *Global Financial Stability Report* (2020e, 2020f) – issued by the IMF in two periods of the year, April and October. These documents are the "most influential policy and research milieus" (Ban 2015, 168) of the Fund. They "reflect the IMF's official views on fiscal policy", while also "they are also ideal sites in which to study the role of economic ideas in policy change" (*ibid*). In specific relation to the documents analysed, they aim to (i) provide up-to-date knowledge and data on global economy; (ii) assess the impact of Covid-19 pandemic on the economy and society, and on public finances; (iii) outline, especially in the *Fiscal Monitor* series, a broader policy strategy to tackle with the economic disruption deriving from the Covid-19 crisis. As already noted, in the analysis we pay close attention especially to fiscal policy, which – importantly – is directly related to other key issues as the role of the government, public spending and economic planning.

In the documents, partly as occurred with the post-2008 response, fiscal policy retains a central place in the IMF strategy, which developed a set of guidelines to help policymakers to deal with the uncertainty of the coronavirus crisis. Overall, fiscal policy, the IMF asserts, should be "adapted" to the various phases of the emergency and post-pandemic recovery. In this respect, the IMF develops a two-stage strategy aimed, *in the wake of the emergency*, to preserve livelihoods and social and economic relations by directing public spending to health sector and liquidity support to households and firms. In other words, to do "whatever it takes" (IMF 2020d, 4) to avert economic collapse. Second, *in the post-pandemic phase*, the IMF outlines a bold fiscal strategy – with national governments at the forefront – to boost the recovery. Especially this second phase, we argue, offers some key insights to understand possible future directions of the global political economy.

4.1. Tackling the emergency, doing "whatever it takes"

The IMF's analysis of the impact of Covid-19 begins with the recognition of the unprecedented nature of the current crisis, which has its origins neither in the financial sector nor in the productive sphere. The main cause of this "unique recession" (IMF 2020d, 2) is directly correlated to lockdowns and other forms of social distancing needed to stop the spread of the virus (IMF 2020b, ch. 2; 2020c; 2020d). One outcome of these health measures is the interruption of the economic activity and disruption of supply chains, so that "layoffs, income declines, fear of contagion, and heightened uncertainty make people spend less, triggering further business closures and job losses" (IMF 2020c, 2; see also IMF 2020e; 2020f). The effects of lockdowns are also unevenly spread across gender, social and age groups, and affect especially lower-income households, young workers (usually on temporary contract), minorities, immigrants and women (IMF 2020d, 70-71). On the other hand, the persistence of health risk, the possibility of new localized outbreaks of the virus, and the time of vaccine production constitute one of the main factors underpinning the nature of Covid-19 pandemic: *uncertainty*, in its turn making more difficult (for example compared to the global financial crisis of 2008) to take effective policy action especially in the medium term. In the case of Covid-19 pandemic, uncertainty is "unusually large" (IMF 2020d, XV) for a number of different but intertwined reasons: the difficulty to forecast public health and economic factors; the extent of global spillovers (tourism, soft demand, remittances); the sweeping sentiment of financial markets; the damage of supply potential (*ibid.*, XV-XIV, 6-9; see also 2020a; 2020b; 2020c). In the guise of a future scenario analysis, the IMF has developed a set of potential "upside" and "downside" risks that can improve or worsen the evolution of the pandemic and of the economy, accordingly, of the policy measures to be implemented. Among the "upside risks", there are the possibility of faster "normalization" of the economic context that can mitigate the recession, the possible extension of the fiscal stimulus in 2021, a faster growth in productivity, and, on the health side, (1) advances in therapy with reduction in the transmission of the virus, (2) and the production of an effective vaccine. As regards the factors that can exacerbate the situation, the IMF indicates – among others – local outbreaks of the virus, a tightening of the overall financial conditions and withdrawal of (especially fiscal) policy support, shortfall of liquidity, social unrest and geopolitical tensions, global trade and technology frictions, and natural disasters (IMF 2020a, 19-20; IMF 2020b, 11-12).

The analysis of the nature of Covid-19 crisis through the lenses of the IMF allows us to zoom in on the policy guidelines and principles developed by the Fund to deal with this unprecedented situation, and its associated risks and uncertainty.

In specific relation to the first of the two phases outlined above – in the height of the health emergency –, the priority outlined by the IMF is to accommodate spending needs for health and emergency services "regardless of how much room a country may have in the budget" (IMF 2020a, 13), to the extent that also for low-income developing countries "ramping up public health expenditure is the number one priority irrespective of the fiscal space and debt positions" (ibid, 18). To the IMF, policymakers need to ensure (i) budget execution among various government levels, (ii) expedite procurement of medical needs (new hospitals, equipment and supplies), (iii) allocate sufficient funds for subnational governments to spend on health services or mobilize medical resources (ibid, 14; 2020c). While suggesting lockdowns and social distancing as long as the health crisis persists, the other goal of the IMF policy is to avert the overload of the health system, while restoring public trust as well as consumer confidence, thus preparing the post-pandemic recovery (IMF 2020c).

The other set of fiscal measures developed during the heights of the emergency aims to assist households and firms, averting a serious collapse of social and economic relations. Therefore by April 2020 the IMF already developed a set of detailed policy guidelines to provide for assistance to national policymakers (Tab 1).

The measures actually implemented by governments, especially in advanced economies – characterised by wider social safety net, ample fiscal space, access to international credit at low interest rates, and central banks that provided monetary stimulus and purchased government and corporate bonds "while retaining credibility to deliver low inflation" (IMF 2020b, 1) – have consisted of "additional spending or forgone revenue, including temporary tax cuts, and the other half liquidity support, including loans, guarantees, and equity injections by the public sector" (*ibid.*). In the *Fiscal Monitor* issue of October (2020b), the IMF evaluates in positive terms the role of governments and fiscal policy in supporting households and families during the first phase of the emergency:

the massive fiscal support undertaken since the start of the COVID-19 crisis has saved lives and livelihoods. Public health policies that contained the spread of the disease were particularly effective because they also supported the recovery by restoring confidence and permitting a safe reopening of activity. Cash transfers were vital for the poor, who spent them largely on necessities. Unemployment benefits supported consumption for people who lost their main source of income (IMF 2020b, 1).

Table 1 - Policy-making in the wake of Covid-19 emergency

Identified problems (demand, supply, confidence)	***Policy design***	***Policy principles***
Supply-side: • Lockdowns and quarantines reduce production and capacity utilization • Disruption to regional and global supply chains • Layoffs and bankruptcy	*Clear objectives and emphasis on solidarity.* That is, "measures should try to strengthen solidarity by not being overly restrictive in terms of eligibility" (2020c, 16)	*Spending measures*: • Allow automatic stabilizers to fully operate and channel additional support through social safety net • Enhance unemployment benefit to the fullest possible extent • Introduce (temporary) paid sick leave commensurate to the health crisis • Design phase out mechanisms in relation to wage subsidies • Deliver rapid relief to liquidity-constrained households, including to the self-employed and those in temporary jobs
Demand-side: • General loss of income • Reduction of consumption and firms' investments • Particularly vulnerable low-income households and workers in sectors as tourism and hospitality • Countries or regions that rely heavily on oil revenues, tourism, and exports of goods and services are more affected	Fiscal measures should be *targeted, temporary, and progressive*: • Targeted to households to maintain basic needs • Targeted to firms to avert layoffs and exist from supply chain • Progressive, to ensure that low-income households benefit more	*Revenue measures:* • Reduction in taxes paid monthly or quarterly • Tax advantages to improve the production the production of medical supplies • Avoid profit based incentives as blank amnesties, tax holidays, tax reduction • Grant tax advantages only to hard-hit sectors (tourism-dependent sectors, hospitality, etc.); to firms

		that experience a decline in sales or profits above a certain threshold; to critical products (medical supplies)
Uncertainty may lead to: ● a vicious cycle of dampening consumer confidence and tightening financial conditions ● job losses and cuts in investment in expectation of lower aggregate demand	Tax and Spending should be *cost-effective* and *embedded in medium-term budget framework:* (i) avoid long-lasting deterioration of public finance; (ii) maintain links with employment	*Liquidity support* ● Measure to support liquidity should be properly costed, recorded and monitored ● Liquidity support should be conditional on the duration of the pandemic in order to avoid keeping nonviable firms afloat with subsidized finance ● Manage the fiscal risk associated to liquidity support by assessing and quantifying the potential sources and size of fiscal cost
	Measures should be embedded into existing programs and infrastructure. *Institutional capacity* makes a difference by influencing the form, instruments and channels of support	
	Take into account *financial constraints*	
	Good governance, transparency and accountability should guide the policy cycle	

Source: Authors' elaboration

On the other hand, the IMF stresses also the risks associated to fiscal policy and rising debt levels. In fact, the Fund presents a series of possible negative outcomes deriving from massive financial injections through an extended period of time. The already mentioned record-high rise of public debt, which can constraint the access to international credit lines and the possibility to repay the debt in the medium term. Also, while wage subsidies preserved jobs and worker-firm relations, they also could – according to the Fund – slow labour market reallocations. Or, tax deferrals bear the risk to become permanent, damaging the revenue level of government; even liquidity injection to firms, while necessary to avoid bankruptcy, could delay sectoral reallocation that is crucial for the recovery (IMF 2020b, 2–5). Does this constitute a prospective call for – as soon as the pandemic will be under control – a new austerity therapy? Actually, given several possible negative effects of expansionary fiscal policy on public finance, one could hypothesise that, as soon as the emergency period is over, the IMF would resort to the usual policy menu based on fiscal retrenchment. Yet, as next paragraph shows, the picture is more nuanced.

4.2. Post-pandemic economy, the role of government and economic planning

In the previous section we emphasised the central role of fiscal policy throughout the various stages of the emergency. In this paragraph we analyse the IMF's prescriptions about the role of fiscal policy in the post-pandemic economic recovery. In other words, what the IMF "thinks" of the post-Covid-19 era and its economic underpinnings. Thus, with the analysis of the documents we aim to understand if, and to what extent, the IMF's policy strategy designed for the recovery phase can be considered as a breakup especially with tight austerity doctrine and market-led development.

Once again, *Fiscal Monitor* is the main document with which the IMF outlines a comprehensive policy strategy, a key dimension of which is dedicated to the strategy that will accompany the global economy once Covid-19 is under control. Both the issues of April and especially October outlined a different strategy to boost recovery, with the triad *government–fiscal stimulus–planning* at the forefront. Such strategy is not only aimed at restoring economic growth after the coronavirus-related depression, but also at overcoming a decade of sluggish growth and "secular stagnation" (IMF 2020b). In fact, while "[l]ow growth and investment, adverse shocks, and low inflation and interest rates during the past few years put fiscal policy at the forefront", in addition "COVID-19 pandemic of 2020 has strengthened the case for fiscal policy action and heightened its urgency" (IMF 2020a, 27).

In April, the IMF made the case for public investment through the strategy "IDEAS" (*I*nvestments, *D*iscretionary measures, *E*nhancing *A*utomatic *S*tabilizers) (IMF 2020a, ch. 2; Tab 2). The rationale of this strategy goes that public investment "could act as a bridge to sustainable, resilient, and inclusive economic growth, including by lifting productivity, creating jobs, and spurring private sector investment" (IMF 2020a, 28). The objective of IDEAS strategy is to provide a ready/effective countercyclical fiscal stimulus in case of downturn, supporting aggregate demand and production. In this case too, the IMF has outlined a comprehensive approach comprising several investment areas, detailed policy design, guiding principles, and a key role for institutions and governance (Tab 2).

While IDEAS strategy aimed to make a case of fiscal stimulus especially in times of economic downturn, the Fiscal Monitor issue of October outlines a broader strategy to boost growth and create jobs, with a particular attention for public investments and economic planning. The IMF put forth several arguments to sustain the necessity to scale up public investments. First of all, as already noted the Fund takes in full account the secular stagnation tendency – and the interlinked slowdown of capital accumulation –, likely worsened (in the short and medium term) by the Covid-19 crisis. Second, again in regard of the overall context, the IMF emphasises that the historic lows of interest rates and inflation constitute a possibility to "easily finance an investment scale up" (IMF 2020b, 31). Thus, "borrowing to finance high-quality investment will be desirable, since cheap financing lowers the bar for whether to undertake an investment" (*ibid.*).

Table 2 - IDEAS strategy

***I*nvestments**	***D*iscretionary measures**	***E*nhancing *A*utomatic *S*tabilizers**
Sustainable investments areas ● Sectors with positive externalities (health and emergency services, low carbon technologies, infrastructures) ● Infrastructures ● Climate change ● Sustainable development goals (water services, electricity, sanitation) ● Investment management (to improve efficiency)	Identify high quality measures to be deployed, as a rule-based fiscal stimulus, in case of downside risks and recession.	Automatic stabilizers are mechanisms built into government budgets that raise (reduce) spending or reduce (increase) taxes when the economy slows (expands). *Objective*: reducing economic volatility and building resistance against downturn
Investment efficiency ● Sound institutional processes ● Establish a central register of infrastructure projects, tighten financial rules on public-private partnerships, and disclose more ex post reviews and audits of capital projects ● Strengthen the links among the national planning framework, long-term capital plan, and budgeting processes	Positive outcomes and design of discretionary measures include: ● Countercyclical function ● Appropriate in response to deep and prolonged downturns when support from automatic stabilizers and social safety nets is not sufficient ● Design discretionary measures to be automatically activated in case of recession (e.g. in correspondence to a large increase of unemployment) ● Examples of discretionary measures include, on the demand-side: tax cuts to low-income families, tax policies affecting the firm; on the supply-side: temporary extension of the coverage and duration of unemployment benefit, or well-targeted transfers to	Channels for enhancing automatic stabilizers: ● Disposable income ● Social Insurance and redistribution (insure income for unemployed and protect poor households) Mechanism for enhancing automatic stabilizers: ● reinforcing spending-side automatic stabilizers ● protecting households by providing adequate income support in difficult times. Programs for enhancing automatic stabilizers: ● cash transfers, food stamps, child allowances, and social pensions; ● in-kind transfers ● income-support schemes for low-income households, conditional on education or health

	low-income or liquidity constrained households • To improve the efficacy and timing of the stimulus identify pipeline projects (especially upgrades, maintenance, and repair)	• public works • fee waivers, including for health care
Sustainable financing through budget-neutral investments		
Stronger governance and institutions: • Better capture of the returns to investment, and management of fiscal risks arising from public-private partnerships • Greater debt transparency • Improved coordination with creditors to ensure debt sustainability		

Source: Authors' elaboration

Another relevant point raised by the IMF concerns the relation between private and public investments, and the revision of the crowding out hypothesis. In general terms, "the crowding out argument, a mainstay of the analysis of state/market relations, assumes increases in public spending will simply 'crowd out' (inherently more efficient) private consumption and investment" (Clift 2019, 10). While already after 2008 crisis the Fund (partly) reconsidered government borrowing and spending, in the case of the Covid-19 scenario the IMF crucially recognises that (1) "uncertainty about the course of the pandemic has further dampened private investment and spurred higher levels of precautionary saving"; and more importantly, that (2) "public investment has slowed since the 1990s, reducing the capital-stock-to-GDP and public-to-private-capital ratios in all income groups [...] especially in the health, housing, and environmental protection sectors, weakening societies' resilience to COVID-19" (*ibid.*, 32). Thus, alongside the acknowledgment of the decline of public-to-private capital ratio, and accordingly of societies' resilience to crises, the Fund argues also that public investments can have a crowd in effect on private investment, therefore acting as a "catalyst" and overcoming a dichotomous and conflictual view of public and private capital.

Other important elements of the strategy developed by the IMF for the post-pandemic era concern the role of the government and, linked to this, macroeconomic planning. In relation to the first, while generally the post-Washington consensus broadly takes into account the importance of government and institutions for the market, in the case of the "pandemic documents" it seems that the government, instead of merely creating a stable and good governance framework for the market, is rather at the forefront in leading societies through the crisis and beyond:

> Governments now also need to prepare economies for safe and successful reopening, foster recovery in employment and economic activity, and facilitate transformation to a post-pandemic economy that, with the right policies, can be more resilient, more inclusive, and greener. Public investment can make a crucial contribution toward these goals (IMF 2020b, 31).

The question of planning also deserves particular attention. In general terms, over the last decades the political (and economic) ideology in the West "has moved away from economic planning approaches towards a reduction of state intervention" (Genovese, Morris and Acquaye 2020), with ongoing cycles of privatization and market liberalization. In the case of post-pandemic recovery, the IMF urges governments to start planning for development priorities; that is, "for projects that will accompany the likely economic and social transformations as economies recover from the crisis" (IMF 2020b, 36). Recovery, as the IMF makes clear, is not to be left to market forces (or, mostly on market forces with the state in a subservient position) but centred upon government macroeconomic intervention through fiscal policy and planning. Also jobs creation is seen as a positive effect of the joint action of fiscal stimulus/public investment and planning. Once again, the starting point is the real sharpest rise in unemployment levels since the Great Depression due to Covid-19 pandemic, adding on the factor of the persistent high unemployment in many advanced economies.

Table 3 - Policy-making for the post-pandemic era

Policy design	***Positive outcomes***
• Focus on maintenance of existing infrastructure • Review and reprioritize active projects • Create and maintain a pipeline of projects that can be delivered within a couple of years • Start planning for the new development priorities stemming from the crisis	• Crowd in effect on private investment • Mitigate secular stagnation • Job creation • Fiscal multipliers

Source: Authors' elaboration

Importantly, the IMF asserts that, on the one hand, "job creation will be an essential criterion in deciding on the size and composition of a fiscal stimulus" (*ibid.*, 37), on the other, "public investment [...] would create millions of jobs directly in the short term and could also create many additional jobs indirectly and in the longer term" (*ibid.*, 45). Before discussing the results, Table 3 shows some of the main positive outcomes outlined by the IMF and directly related to public investments and planning. Thus, the IMF conceives the state, fiscal policy and public investments as the pivot of the recovery phase, and the leverage to rescue Western capitalism from the secular stagnation tendency.

5. Discussion

Through the analysis of the flagship documents produced by the IMF during the pandemic period, our study aimed to understand if, under the impact of Covid-19 crisis and after a decade of sluggish growth, at stake is an early process of more substantive redefinition of the policy framework and advice, in particular as regards fiscal policy action. Broadly speaking, as already noted, the question of the changes of IMF policy advice after the GFC has been subject of widespread scrutiny and controversies (Ban and Gallagher 2015). Several studies argued that – especially in the domain of fiscal policy – a shift from orthodox avenues towards hybrid forms of neo-Keynesianism actually occurred (Grabel 2014; Strange 2014; Clift 2018), while others stressed that "fiscal policy during the Great Recession [...] falls short of a paradigmatic shift" (Ban 2015, 169-70; Broome 2015) despite some (especially short-term) changes emerged. In addition, it seems also that the "creative" use of policy instruments from competing frameworks displayed the paradoxical effect of making "neoliberalism more resilient to challenges than classical liberalism ever was" (Ban 2020, 83).

Taking stock of the debate, our paper brings evidences to what can be conceptualised as a process of increasing and consolidating *paradigm hybridization*, in which – pragmatically – a more pro-active state intervention is devised as necessary to restore capital accumulation and preserve market economy on the long run, also vis-à-vis the serious issue of socio-political unrest linked to the social repercussions of the pandemic (IMF 2021). Importantly, a key element that we stressed in the analysis, and partly constituting a potential novelty, is the *long-term view of recovery by expansionary fiscal policy* associated to a more proactive role of state intervention.

Prior to discuss the main empirical elements of our analysis, it is worth noting first several key societal dynamics that need to be taken seriously to understand contemporary sources of pressures that militate for a change in policymaking. Pressures, it is worth noting, that are explicitly taken into account by the IMF. First of all, neoliberal policy prescriptions – coupled with austerity measures, especially in the Eurozone –, and more generally market-led development, did not manage to restore a sustained, balanced and shared economic growth after the global crisis of 2008. Inequalities and poverty have also risen sharply, along with wage stagnation and unemployment. The IMF fully and repeatedly acknowledges the stagnation tendency and associated decline in capital accumulation well before the eruption of Covid-19 crisis. This factor accounts in the IMF's interpretation of the current crisis, and accordingly, of the policy advice to accompany the recovery phase. The second key factor to take into account is social unrest, being therefore a problem of legitimation. In other words, the IMF fully recognises (2020a) that social unrest and widespread tensions have characterised social and political relations in the West over the last decade, with a growing concern about the legitimation of orthodox policy choices and the concrete effects of these latter (actually, a socio- process testified by the political consolidation of more radical and (once) politically peripheral political forces). Third and importantly, the Covid-19 is an exogenous shock of unprecedented nature and extent. This crisis touches all sectors of the economy and poses new threats for public health and the future recovery phase. For this reason, it is also worth stressing that the IMF emphasises the factor of uncertainty, which in the case of the pandemic is "unusually large". Thus, the nature of the crisis and the related uncertainty constitute an extremely powerful source of pressure for (policy) change, especially with reference to the development (failures) of the post-2008 phase. Another element of interest is the recognition, by the IMF, of the decline of public-to-private capital ratios *since the 1990s,* and how this brings down the resilience of society while also improving inequalities – in stark contrast with more orthodox perspectives centred on favouring private investments through privatization, market liberalization and fiscal consolidation.

Now it is possible to discuss in greater detail the documents analysed. The first element standing out is the role of expansionary fiscal policy and its seemingly *structural* dimension. In other words, its future projection and long-term impact. Such policy advice – unlike the 2008 crisis, where the stimulus was mostly circumscribed to the post-crisis phase and to advanced economies – seems to be not a case of temporary stimulus aimed to sustain aggregate demand and preserve socio-economies relations as long as the crisis unfolds, retuning to tight fiscal discipline when the height of the (financial) crisis is over. In this case, the analysis seems to show a broader and bolder vision of fiscal stimulus, and of public investments within it, with a long-term view of recovery by expansionary fiscal policy – a factor that we already stressed as a potential innovation. "Beyond its macroeconomic implications" – the IMF writes – "public investment is essential to raise long-term economic growth [...] and to strengthen economies' resilience to crises. In the long term, public investment in infrastructure can help reduce inequality by fostering structural transformation" (IMF 2020b, 32; IMF 2021). Linked to this, there is also the purpose of job creation through fiscal stimulus. The objective of boosting growth and employment is not left to market forces and private capital alone, but is strongly based on a public investment-led development strategy, able *also* to crowd in private capital and boost capital accumulation. A further element of particular interest is planning. Planning is related to the critical role of national governments in setting a hierarchy of objectives, and to the already mentioned purpose of job creation, a task where market-led development failed.

Importantly, if a future direction in global economic governance should be imagined based on the IMF lenses, it seems that this will be characterised by a more active role of the state and of fiscal policy in particular through public spending and planning. The state, in other words, seemingly will be neither just called upon to rescued the private sector and preserve social relations in times or recession, nor be reformed to provide for the best possible regulatory framework for markets. By contrast, given the economic situation inherited from the past and the impact of the pandemic, coupled with longstanding failures of marked-led development, the state and fiscal policy may lead through the post-pandemic times in the light of a new public-private partnership.

6. Conclusions

The Covid-19 is a crisis of unprecedented nature that touches upon all sectors of the economy and seriously affects social cohesion and the preservation of livelihoods. The pandemic also bears unusually large levels of uncertainty, in particular due to the duration of the health crisis and the necessity of localized lockdowns to stop the spread of the virus. Furthermore, the Covid-19 crisis emerged after ten years of sluggish growth and rising inequalities, actually amplifying such imbalances.

Our research shed light on the IMF's understanding of the crisis, past developments, and policy advice to deal with the pandemic. We focused on fiscal policy in particular, one of the main domains in which the Fund advises national governments and exercises its authority. After the crisis of 2008, a moderate change in fiscal policy has been reported, with an emphasis on discretionary fiscal stimulus and *gradual* fiscal consolidation after the crisis. As Ban notes, "the IMF reformers worked to cobble together a more reformist, flexible and pragmatic *neoliberal* policy paradigm for the age of financialization, secular stagnation and political turbulence in societies riveted by growing inequality" (2020, 83; emphasis added).

The credibility towards creditors and fiscal consolidation remained a key priority which has not been structurally questioned, even in relation to the Covid-19 crisis and its aftermath and despite the fact that the emphasis on fiscal consolidation is significantly less present than in the pre-Covid-19 documents. On the other hand, we argue also that the stress on fiscal stimulus, public investments and planning, and the purpose of job creation, are key domains in which a more substantive change in the Fund's policy advice could consolidate in the future.

Our analysis, despite being insightful (and full of future implications) as regards some relevant changes in IMF's fiscal policy advice, is nonetheless circumscribed to the documents produced during the pandemic phase. Furthermore, while generally in capitalist crises the burden of adjustment shifts from capital to labour, it is still premature to forecast a clear pattern in international and national policymaking. Not only because the intertwining of the health and economic crises is still in place, with lockdowns and local outbreaks occurring, but above all because it will be of primary importance to understand how possible alternative avenues will impact existing societal inequalities and macroeconomic imbalances. In this uncertain scenario, other research questions arise: to what extent the changes looming at the horizon will consolidate and produce durable effects in the medium and long-run, with a new role for the state and state-led development? How will the Fund's strategy impact upon national governments? How will the Fund's policies both influence, and adjust to, the changing conditions of global capitalism? Also, future researches need to take in due account if this phase will bear systemic consequences in terms of a full-blown paradigm change as occurred with the transition from Keynesianism to neoliberalism, rather than a complex – while contradictory – adaptation. In this regard, further elements must be taken into account: from the rise of new dominant ideas and ideology to the redefinition of transnational social relations of production, from further political transformations of national states to a new proactive role of international financial institutions in fostering processes of change, to broader changes in the international order with the consolidation of power of new actors – China, prominently. Actually, while the post-2008 marked a partial continuity within neoliberal policy, the current Covid-19, coupled with longstanding imbalances accumulated especially after the Great Crisis of 2008, is such an historical occurrence that may allow for more substantial revisions of the dominant political economy paradigm.

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