UNIVERSITY OF STIRLING

Beyond Modernism and Postmodernism:

Reflexivity and Development Economics

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by

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DECLARATION

In accordance with the Regulations for Higher Degrees by Research, I hereby declare that the whole thesis now submitted for the candidature of Doctor of Philosophy is a result of my own research and independent work except where reference is made to published literature. I also hereby certify that the work embodied in this thesis has not already been submitted in any substance for any degree and is not being concurrently submitted in candidature for any degree from any other institute of higher learning. I am responsible for any errors and omissions present in the thesis.

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ABSTRACT

This thesis has two main objectives. First, it outlines a taxonomy of reflexive development practice, which aims at transcending the divide between modernism and postmodernism in the methodology of development economics. Second, the thesis examines the taxonomy in two countries at opposite ends of the development spectrum, Vanuatu and Singapore, attempting to show that the taxonomy provides insights for policymaking.

The taxonomy is the principal contribution. It suggests an examination of external values and norms; an assessment of the importance of local context; a recognition that policies can worsen the problems that they try to solve; and the idea that theory and policy should be revised as circumstances change. The taxonomy is developed as a way of addressing the difficulties encountered by the modernist Washington Consensus on the one hand and postmodernism on the other. Some postmodernists have criticised modernists for trying to make universal statements based on findings specific to a particular time and context. A further criticism is that the modernist-type theorising exemplified by the Washington Consensus assumes too much certainty, putting excessive faith in the 'expert' outsider. Postmodernists, on the other hand, have often been criticised for being relativist or even being against theory itself. In extreme versions of postmodernism, the entire rejection of epistemological foundations allows no analysis or significant discussion. The taxonomy aims to steer away from the pitfalls of either tradition, emphasising in particular the unity of theory and practice and the need for analysis and policy advice to take account of both the objectivism of the outsider and the subjectivism of the insider.

The thesis is divided into two parts. The first part discusses how the open systems approach of critical realism, John Maynard Keynes and the neo-Austrians aims to overcome the difficulties of modernism and postmodernism. It then examines some of the principal uses of the term reflexivity in the past century or so, suggesting that some of these uses are compatible with each other and with the idea of open systems. This section draws on the work of several economic methodologists and sociologists, including Karl Marx, Karl Mannheim, Pierre Bourdieu, Anthony Giddens and thinkers within the sociology of scientific knowledge. Next is a critical discussion of the Washington Consensus and its amended version, followed by the development of the taxonomy.

Part two begins with a brief discussion of the nature of comparison within developing economies, before looking at the taxonomy in the context of Vanuatu and Singapore. Following the case-studies is an attempt to draw lessons from the experience of the two countries. Finally, the discussion is summarised and some conclusions established.

To Jance and Alan

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It is customary to begin with a bout of name-dropping, so I will begin by mentioning an important name. I am deeply grateful for the help and encouragement provided by my supervisor, Professor Sheila Dow. If, as I try to argue in the thesis, subjective qualities matter in economics, then Sheila's open-mindedness and approachability contribute to making her a great economist. It is not often that you find a supervisor who is always available for impromptu discussion, still less one who takes seriously most of your ill-considered meanderings. Sheila made my doctorate a process of discovery rather than a race to the finishing-post.

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1. INTRODUCTION

'I've got this scientist well-trained,' said one laboratory rat to the other. 'Every time I press the button, he gives me a peanut.'

The idea of reflexivity has long been the subject of discussion in philosophy. The origins of the term can be found in the 'Liar's paradox', a puzzle believed to have come from Eubulides, a pupil of Euclides in around the sixth century BC. Consider the sentence: "This statement is false". If the statement is false, then whoever said it was telling the truth. But if it is true, then it must be false because the speaker said it was. Therefore if it is true it is false, and if it is false it is true. The self-referential nature of the statement has even led some to question the absolute validity of classical logic.[1]

The word itself comes from "re" meaning back, against, or reversed and "flectere", the Latin for bend. Grammatically, it denotes a pronoun that refers back to the subject of the clause in which it is employed. In logic it refers to a relation between a term and itself. The difference between reflexivity and reflection is that while the latter suggests looking in a mirror and seeing yourself, the former involves an action deployed on an object and that object reacting back, resulting in a changed situation. If the joke above about the lab rat is funny it is because expected relation between subject and object is reversed. The scientist believes herself to be training the

[1] The Liar's Paradox worried the poet Philetas of Cos to the extent that he stopped eating. He grew so thin he had to weigh his shoes down with lead to stop himself being blown away. The epitaph on his gravestone read: "O Stranger: Philetas of Cos am I, 'Twas the Liar who made me die, And the bad nights caused thereby" (Gottleib, 1997).

rat, while the rat has other ideas. The reader's perspective on the laboratory experiment is turned around. Reflexivity is as much about perceptions as about physical realities.

The purpose of this thesis is to examine whether the concept of reflexivity helps transcend the methodological distinction between modernism and postmodernism in development economics. In particular the thesis focuses on the Washington Consensus, which has informed the dominant, modernist, mode of mainstream development thinking throughout the last two decades. Some of the ideas of reflexivity from the last century of social and economic thought are applied to the practical experiences of two countries at opposite ends of the development spectrum – Singapore and Vanuatu.

Reflexivity is often used to refer to any situation in which things affect themselves. The anthropologist Clifford Geertz (2004) has even suggested that methodology itself is reflexivity, as it involves discussing what you are doing. But reflexivity is more than this, as I aim to show. Rather than simply implying self-dependency, reflexivity can introduce an element of realistic unpredictability into the often deterministic world of modernist science. Within social theory, and therefore economics, the concept has implications for the subject/object divide as well as the idea of structuralism. In an era of increasing scepticism about human progress, some authors wonder whether the concept of reflexivity, further developed, might not constitute an entirely new way of thinking, just as Marx stood Hegel on his feet.[2]

One less ambitious interpretation of reflexivity, originating in the sociology of knowledge and discussed in the economic methodology literature by Davis and Klaes

[2] George Soros, although sometimes dismissed (for example in Krugman, 1998) as not being a proper academic economist, suggests that: "If Hegel's concept was the thesis and Marxism the antithesis, reflexivity is the synthesis" (Soros, 1994: 365). Cross and Strachan (1997) and Bryant (2002) engage more with Soros's ideas.

(2003), is that the author is implicated in her own text because she has a (usually unspoken) social background that affects what she says. Context and background affect all economics, including policy. The interest-rate decisions of the Bank of England, for example, depend heavily upon the particular composition of the nine-member Monetary Policy Committee and their interpretation of economic data and events, rather than being the straightforward application of models. Proponents of reflexivity suggest that presenting an argument or deciding policy therefore should involve making explicit the background, beliefs and possible biases to that decision or argument.

Any argument dealing with reflexivity should itself be self-reflexive in such a way. This does not mean being relentlessly inward-looking or self-conscious.[3] Having your 'I's' too close together is an unattractive trait and self-analysis can be tedious. The declaration of predispositions, however, has value. To state theoretical leanings and to make explicit the context in which a text was written helps the author address the issue of subjectivity. As I show later, subjectivity matters. The scientism of much economics leads to the mistaken impression that the author's preconceptions are irrelevant; that as long as relevant methods are applied correctly the results of economic discussion are objectively true.

So here I will briefly explain the background to my enquiry (in an inevitably partial and subjective way, and doubtless leaving out details that others would consider important). Of course, acknowledging my own subjectivity risks qualifying my conclusions – a risk I am willing to take.

After three years working as an economist and journalist in Singapore I returned to the UK to study for a mainstream MSc in economics. I felt critical about

[3] Of the sort displayed in Woolgar (1988), and discussed in chapter four.

certain topics, and wondered why, unlike in the other social sciences I had studied, we were not encouraged to think *about* the subject at hand. One of the first books on economic methodology I had read was Dierdre McCloskey's *The Rhetoric of Economics* (1985), which also re-ignited an earlier interest in postmodernism. Whilst writing my masters' thesis, on which chapter 2 is based, I was lucky enough to be accepted to study with Professor Sheila Dow for a doctorate. I began my studies and formulated my research question. At the same time I hoped to keep working in developing countries, and felt convinced of the need to continue learning about development through practice as well as books. I took a job in trade policy with the government of Vanuatu in the Southwest Pacific.

Two years later I returned to study full-time for my doctorate. As stated earlier my main research question is whether, within development economics, the concept of reflexivity helps in transcending the divide between modernism and postmodernism. To answer this question I developed a taxonomy, the final version of which is outlined in chapter 4. The taxonomy is not supposed to be a final definition of reflexivity; it is an attempt to work out some of its implications for the practice of economic development. In the spirit of reflexivity it cannot be considered the final word on the matter and must be taken provisionally.

I cannot pretend that the case studies are a foolproof 'test' of whether the taxonomy works because I revised the taxonomy after writing the first case study. Equally the case studies were revised to make them better answer the points of the taxonomy, an initial version of which I drafted before I left for Vanuatu. Maybe some people would consider this approach to be bad science – but I suspect that in practice many authors switch between the bird's eye and the worm's eye view. It might be too much to aggrandise my approach as being in the Scottish political economy tradition

(Dow, 2005) of alternating between the universal and particular, or as combining inductive and deductive methods, but I certainly find this sort of approach interesting and have a mostly Scottish education in politics and economics. In a rather reflexive way, the kind of two-way approach I adopted is also required by the taxonomy, which advocates a revision of theory in the light of new evidence.

My critical, multi-disciplinary education and my time as a practitioner of development will inevitably colour my conclusions, just as the predominantly formal methods of mainstream economics influence the conclusions of those who think in such a way. Convinced formalists would argue that their approach is more precise (although we surely all think our own approach is correct), and that self-reflexivity is redundant. But as McCloskey points out, all science involves rhetoric, and pointing out certain leanings or predispositions helps the reader put the argument in context. I would argue that reflexivity also helps scientific economic accounts to be more convincing, since economics is about humans, who are both the observers and the observed.

But a crucial assessment of whether conclusions are valid is whether they are believable – not only where they came from. Contextualising the enquiry moves the author only half-way to his goal. The other half of the journey is to present a convincing account, and this is what I have tried to do. This is also why reflexivity is about more than just the presentation of background and context. Beck *et al*. (1994), Bourdieu (1990a) and Bourdieu and Wacquant (1992) imply that the concept of reflexivity can contribute to the understanding of economic methodology.

It is first worth outlining some assumptions. My use of the term methodology is the study of the framework within which methods are chosen (Dow, 2002: vii). As Fritz Machlup (1978: 61) points out, there is a difference between ‘graphies’ and 'logies'. Geography is description of the earth's crust. Geology is the study of what goes on beneath the surface. In the same way method (the word should really be 'methodography') is the technique used to tackle a question, while methodology is the deeper study of how to choose between methods. Arguably the word methodology has suffered so much slippage – it is now used so routinely as a substitute for method – that the debate is just semantics. The question then arises of what word should be substituted for methodology, a concept that undoubtedly exists. Either way, I choose to use the word methodology to mean the approach to knowledge which underpins the selection and application of methods.

Methodology is not just abstract philosophical debate divorced from the real world.[4] As Dow (1996) points out, the ways in which an economist chooses between methods, and in which school of thought the economist operates, carry implications for the kind of economics that is conducted, how it is used, and what kind of policy recommendations result. This idea informs the discussion throughout. Using case-studies and recounting the details of economic and social life help to show that the methodological ideas developed in chapters 2 to 4 are relevant to the kind of economic policies pursued in the two countries discussed. For example in chapter 6 I suggest that Vanuatu's structural adjustment programme might have been more successful had it conceived of knowledge in a more open way, rather than the conventional closed-systems approach that lay implicit in the policies pursued. I contend that in Singapore successful economic policymaking was partly due to methodological eclecticism. The government had no fixed allegiance to one specific school of thought, moving from a socialist to a developmentalist to a more Schumpeterian stance.

[4] In response to the accusation that "those who can, do economics; those who can't, do methodology", I would question whether some of the more abstruse mathematical contortions really constitute "doing" development economics.

My use of case studies was also prompted by the possibility that some economists, heterodox and mainstream, do not tend to get their hands dirty enough. Recognising the interconnection of theory and practice, as realists do, for example, surely means doing case studies and perhaps even aiming at the physical transformation of economic activities in poorer countries. I suspect that there is an over-emphasis on 'the literature' rather than on 'the reality', meaning that development economics sometimes has a tendency to build an internally-consistent academic discourse about a particular country without referring frequently enough to actual conditions on the ground. Acknowledging the importance of practical application throws into question the unstinting use of models. Instead of always applying the results of established economic formulae, I wonder whether practical development economists may be able to behave in a more discretionary manner, depending on context?

Chapter 2 introduces the distinction between modernism and postmodernism, suggesting that it matters for economic methodology. Economics has not engaged with the concept of methodological postmodernism to the same extent as have other social sciences, although signs of the concept exist in economic writings. I argue that the discipline of mainstream economics, which is modernist, would benefit from trying to address some of the questions raised by postmodernists, even if it does not accept all of their conclusions. Three open-systems approaches are presented: critical realism, the Keynesian tradition and the neo-Austrian approach, each of which can be seen as moving beyond the division between modernism and postmodernism. These traditions and projects have certain features in common, which can shed light on the discussion about modernism and postmodernism. The discussion in this chapter informs the discussion of reflexivity and the later case-studies on Vanuatu and Singapore.

Other approaches have likewise tried to transcend the divide between modernism and postmodernism, including the concept of reflexivity. Chapter 3 outlines five important ways in which the term has been used during the last century. There is a necessary interdisciplinarity, partly because the discussion of modernism, postmodernism and reflexivity occurs throughout the natural and social sciences and the humanities. My multi-disciplinary education also prompted me to focus on a particular problem using a variety of approaches rather than to use a particular disciplinary toolkit. A good case can be made for cross-disciplinary approaches in development research (Harriss, 2002) and there is a long tradition of 'crossing boundaries' (Hirschman, 1998) in development economics. Discussions of reflexivity in the economic methodology literature originate with the sociology of knowledge, and it seems sensible to look within this field for ideas, which is why in this chapter I discuss authors ranging from Marx (1974, Tucker, 1972) and Mannheim (1936) to Bourdieu (1992) and Giddens (1996). Whilst important distinctions exist between the ways in which these authors use reflexivity, they also hold features in common. One of these common features is that because research is unlikely to produce a final result, and because the social context of knowledge changes, the way that economics conceives of knowledge may need to be revised periodically. The implication is that economics is a process of enquiry rather than a fixed set of tools.

In chapter 4 I build upon the discussion of modernism, postmodernism and reflexivity to outline a taxonomy of reflexive development practice. This is aimed at establishing some ideas which might inform both the way economics is practiced in developing countries and the process of conducting research in development economics. The first point of the taxonomy is that examining the influence of external values and norms would help make development practice more relevant to the national context. Certain ideas are likely to be acceptable across all countries, such as the provision of basic essentials. But beyond this, values and policy proposals vary considerably between countries, and it is up to the development economist to choose the theoretical framework and policies. Whilst not quite 'horses for courses' (Harcourt 1996; Lawson, 1997b), it is true that considerable space exists for manoeuvre away from the standard 'one-size-fits-all' theoretical approach of the Washington Consensus.

The second part of the taxonomy suggests that it is worth making an implicit assessment of the importance of local context. 'Local context' means more than just governmental set-ups or exchange-rate regimes. Economic policy proposals must be tailored to take account of differences in behaviour, values and institutions. Without a solid grounding in the cultural context, policies are not only less likely to be less successful but governments may feel less ownership over reform. The experience of the last 20 years shows that externally-imposed conditionalities have weakened governments' commitment to reform.

The third point of the taxonomy is that economic tools, concepts and policies can undermine themselves even though they were designed for greater control. This kind of reflexivity comes from the most simple use of the word – that things affect themselves. Remaining open to fallibility and accepting that policy ideas can be partly self-defeating helps deal with postmodern scepticism about scientific self-assurance, without descending into relativism.

The fourth and final point of the taxonomy suggests revising theory or policies if they prove inadequate or as circumstances change. Whilst most economists would accept the idea of theoretical progress, the wide-ranging and honest reappraisal of economic thinking is rarer than might be supposed. The influence of ideology in mainstream development economics has challenged the Popperian ideal. On the other hand, it would be a mistake to read critics of structural adjustment (such as Callaghy and Ravenhill, 1993; Lensink, 1996) as opposing any reform. It is important for alternative visions of development to retain the notion of agency, and in particular the ability of national governments to influence economic outcomes.

In chapter 5 I outline briefly some of the reasons for choosing Vanuatu and Singapore as case studies. I realised from the start that the two countries are very different and that both countries are sometimes considered 'special cases' which do not tell us anything about development in general. I would dispute this view, but equally recognise that any lessons from the two countries are limited. The taxonomy is not intended to be a theoretical model to be applied everywhere. The aim here, modestly, is to try and show that it works in these two particular economies, and without proving it, maybe others. One of the implications of reflexivity is to be the observer and the observed at the same time – to involve yourself in the object of your research. Subjective details are important. It would have weakened my argument to discuss countries of which I had no personal subjective knowledge.

Chapter 6 begins an examination of the ideas of the taxonomy in practice. I lived in Vanuatu from 2002 to 2004, a period when the economy was emerging from a period influenced by a structural adjustment package initiated by the Asian Development Bank. The Comprehensive Reform Programme (CRP) was inspired by the Washington Consensus, proposing standard objectives such as reduced government expenditure, privatisation and current-account liberalisation. After the programme started, the economy went into recession and per capita GDP fell. I suggest, following the ideas of the taxonomy, that had the CRP paid more attention to local context, including cultural and institutional peculiarities, it would have been more successful.

Next I examine the taxonomy in the other country in which I worked, Singapore. I try to show that unlike in Vanuatu, the Singaporean government consciously maintained ownership of its development process. Certain outside ideas were accepted, such as the importance of foreign direct investment, but the government paid off external debt quickly and minimised the influence of international institutions. This self-reliance enabled it to accommodate particular domestic features, including values, institutions and behaviour. The government also remained beholden to no ideological framework, changing the development narrative as it saw fit. The combination of ownership, awareness of context and flexibility helps explain the government's economic success since independence.

Chapter 8 involves a comparison of the two economies, again using the taxonomy. Sometimes the kind of comparisons inspired by the Washington Consensus tend to focus on the empirical and practical, rather than considering wider methodological issues. Issues connected with the use of knowledge include the difficulty of knowing certain outcomes in advance and the importance of policy autonomy and ownership. An ontic issue is the use of money, which took a particular form in Vanuatu and influenced the success of privatisation and the role of the state. This is not just abstract academic dialogue, but the kind of discussion that helps establish economic policies that are more useful and compassionate.

The final chapter summarises the argument developed in the thesis and considers some implications.

PART I

2. BEYOND MODERNISM AND POSTMODERNISM

2.1 Introduction

Science has long wrestled over the certainty of its claims. Can one scientific discovery apply equally to every situation and remain true forever? Are there absolute foundations to knowledge, or does truth depend on who is speaking? In recent years the philosophy of Lakatos (1976), Kuhn (1962) and Feyarabend (1975) has heralded a move away from foundationalism in science, accompanied by the ‘postmodern turn’ originating in the social sciences and humanities. Economics is no exception, even if it has come late to the debate.

The mainstream of economics can be placed firmly in the modernist tradition. Modernism is an early twentieth-century humanist movement in science and the arts that believes reality can be reduced to certain essential features discovered through rational enquiry. Methodological postmodernism – in its various guises – broadly disputes these claims, asserting that realities are fractured and perhaps incommensurate, and that therefore an independent assessment of the truth is impossible. Postmodernists are open to the charge of relativism and being anti-theory, but modernists must justify their foundationalism, scientism, determinism, essentialism and humanism.

Amid a minefield of ‘isms’, it is important to get definitions straight, and this is why I will spend some time reviewing the diverse fields of thinking represented by modernism and postmodernism. A distinction that has been touched on only briefly by the economics methodology literature is that between modernity and modernism.

Within the social sciences, mainstream economics is in a sense the inheritor *par excellence* of the enlightenment project of modernity, a term which requires some illumination in itself. Are we living in an era of post modernity, or is postmodernism a way of thinking about the world? Undoubtedly the conditions of late twentieth century are different to those of 100 years previously, but it is questionable whether a radical disjuncture has taken place. It is equally true that we need new theories and tools to think about new developments in social life. But there is no need to opt wholesale for either side of the debate.

Within economics several approaches have tried implicitly to retain the useful features of modernism and modernity while pre-empting postmodern challenges. I will show that three of these approaches – critical realism, the neo-Austrian school and the Keynesian philosophical tradition – use an open systems methodology in contrast to the closed system tactics of modernism. Critical realists consider economics to be social theory, whilst Keynesians have often been better-disposed toward social economics than the mainstream. Using sociology to illuminate economic methodology is useful because it enables economics to rebut the charge of scientism, if this involves an over-reliance on static tools despite the changing subject matter of economics.

Pitching the argument at a more concrete level also complements the philosophical arguments advanced by critical realism and Keynes. All three open systems approaches argue against a fixed theoretical definition of the economic agent outside human existence. Part of the problem with both postmodernism and modernism is that they operate at such a high level of abstraction that they place too little emphasis on what real people do, warts and all.

Trying to achieve such a synthesis beyond modernism and postmodernism has several implications for economics. First, concepts originally used to understand economic life have themselves now become a part of economic life to be explained, and thus operate in a reflexive manner. Second, looking at the subject matter of economics as socially-generated means economists themselves must be subject to the same social influences. Third, economics might try to conceive of its objects of enquiry – human beings – as in flux and somewhat unpredictable.

Achieving greater awareness of the changing nature of its own project would mean economics performs more self-critique. Taking account of these three implications would help economics to deal with the postmodern challenge whilst better equipping it to make scientific claims.

2.2 A review of modernism and postmodernism

Pigeonholing postmodernism is difficult since many of its various strands dispute the practice of reducing a body of thought to one central feature. Many postmodernists (for example Foucault, 1972, 1980; Lyotard, 1984; Jameson, 1991) often try to replace this sense of conviction with a plurality of ways of conceiving of reality. Yet if the term is to be defined at all, it is perhaps as a series of categories which relate to its dual, modernism (Klamer, 1995). Modernism is usually defined as a movement in the sciences and arts that originated around the first world war. In the sciences it was represented by figures such as Bertrand Russell (1991) and Paul Samuelson (1947), who appealed to rationality and logic in an attempt to replace what they saw as religious obscurantism and the rigid distinction between feeling and reason.

Modernism can be seen as revolving around a number of features, each one of which has been criticised or highlighted by one or more dimensions of postmodernism (Cullenberg *et al*, 2001). The first of these features is essentialism, the belief that every object can be divided into two levels, one 'apparent' and one 'true'. The enquirer uses tried and tested techniques to discover what is 'really' going on. For example language is held by many modernists (and others) to be at best only an approximation of the actual nature of reality, whereas some postmodernists argue that reality is constituted in language. Postmodernists charge that there may be no independent essence to discover and that the 'objective' tools of the scientist may be arbitrary or constructed. Discovery, for postmodernists, is best achieved through a variety of methods, implying that the reliance on mathematical techniques by those in the Samuelsonian tradition might be well complemented by other procedures appropriate to the situation.

Not only are postmodernists critical of privileging specific tools, they dispute modernism's foundationalism, the view that there is one single basis to reality that exists irrespective of how it is talked about. Some postmodernists (Lyotard, op. cit.) propose instead that there are a number of different realities, and that they depend on the situation of the speaker. Many postmodernists suggest that power relations underlie knowledge production, a stance which could suggest relativism – that it is impossible objectively to evaluate competing truth claims. Michel Foucault (1980) has shown that power relations define most human behaviour; he thus uses power not pejoratively to describe a hidden facet of scientific misconduct, but as an everyday feature of knowledge creation.

Modernism also stands accused of scientism, the elevation of scientific practice to a privileged position above other lines of enquiry. This is not to say that postmodernists are anti-science or that they aren't interested in science, but that science should lay itself bare to its own techniques and should listen to other ways of knowing that aren't currently considered scientific. The non-scientist strain of postmodernism is to some extent a product of the critiques of essentialism and foundationalism. It reinforces the idea that the model-building and formal techniques used by mainstream economics are not alone sufficient to achieve an economic science; other lines of attack might enhance our knowledge of various economic worlds. I will mention later the criticisms of scientism proposed by Friedrich Hayek.

Some postmodernists also query the determinism of modernism. This refers to the linking of causes with effects in a specified relation under the umbrella of theory. An argument is determinist if one element within the system is said to be prior to others, and that element acts on other elements in a predictable and uniform way such that explanation always consists of seeking recourse to the prior element. Cullenberg *et al* suggest that:

> The attack on determinisms of all sorts has been among the main contributions of postmodern critique. Alternative, specifically postmodern interrogations have emphasised the randomness of causation and the effectivity of chance, the indeterminacy of events, the multiplicity of possible causes, the fluidity of the relationship between seeming causes and effects (Cullenberg *et al*, op. cit.: 31).

A final angle to postmodernism's critique disputes the belief that humans should be the bottom line of enquiry. This anti-humanism is again exemplified in Foucault, who suggests that the desire to achieve perfect knowledge of the human body underlies much modernist philosophical thinking. He argues that there can be no single and timeless definition of the acting human subject. Rather, human beings behave in a range of complex and uncertain social ways.

Various postmodernists can accurately be described as discussing these five 'isms' of modernism – essentialism, foundationalism, scientism, determinism and humanism – but postmodernists cannot be homogenised, nor do their threads of thought even constitute theories that can be placed in opposition to the modernist camp, since this would be self-defeating. If postmodernism is taken to its extreme it precludes the possibility of theorising at all because no single thinker has better grounds on which to substantiate his or her claims. Rather than construct a unified image of postmodernism in opposition to modernism it is better to describe it as a diverse range of thinking that exists across the sciences, arts and humanities that is expressed in several ways.

Some think of it as a critique, meaning that it doesn't just propose ways of thinking but advocates what Cullenberg *et al* (op. cit.) call a 'non-modernism'. Modernism falsely represents choices as being of the form 'either/or', thus some postmodernists advocate immanent critique, which means transcending some of the undesirable aspects of modernism without rejecting the tradition in its entirety – postmodernism is to some extent a supercharged form of late modernism.

Postmodernism can also be conceptualised as a style. This is particularly important for the subject at hand, for a number of theorists believe not only that all knowledge hinges on whatever assumptions are brought to the enquiry, but that theorists themselves should recognise the assumptions on which they base their analyses. This 'self-reflexive' style means that authors declare their values and beliefs at the outset, meaning that they do not claim privilege over the objects of their enquiry.

For Jean-François Lyotard postmodernity is more than just a way of thinking; it is a condition. Lyotard's "collapse of grand narrative" (Lyotard, op. cit.) rejects the overarching thought-systems of enlightenment thinking that have promoted normative programmes for the improvement of society. He argues that knowledge is not progressive and that attempts to employ technology and science to master nature are not only misguided but dangerous. Lyotard does not believe that human creations are always benevolent and he disputes the idea that society has an identifiable past and a progressive future. This type of postmodernism is among the most radical since it implies that human intervention in social affairs is fruitless and can only lead to worse outcomes.

If Lyotard is correct to suggest that modernity will self-destruct and that its methods are pernicious, then his findings are relevant for economics since modernism forms the backbone of much mainstream theory. Operationalism, the guiding principle of Samuelson's 1947 *Foundations of Economic Analysis*, is in a sense the very definition of the essentialism and foundationalism described above. Operationalism is the idea, originating in physics, that a term or concept only has meaning if there are a set of operations that can answer it definitively. Samuelson's suggestion that a theory is only operational if it can be empirically tested (Hands, 2001: 62) is a rewording of the definition of logical positivism: that statements are only true if they can be tested.[5] Reality is 'out there' to be discovered, and the task is to find the correct tools to describe it. Mainstream economics also follows Samuelson's belief that mathematical methods applied to economic phenomena can

[5] And hence vulnerable to Bertrand Russell's observation that this is a statement that cannot be tested.

replace ill-conceived ideology and unscientific dogmas to achieve a increasingly accurate representation of the world.

Although economics and the economics methodology literature contain a number of instances or discussions of postmodernism (McCloskey, 1985, 2001; Dow, 1991; Hoksbergen, 1994; Dow and Hillard, 1995; Kanth, 1999; Cullenberg *et al*, op. cit.; Ruccio and Amariglio, 2003) there are few references to the difference between modernity and modernism. The distinction is both historically and conceptually important, since modernity is considered by most to have begun with the enlightenment rather than like modernism, a century ago. According to the *Oxford Companion to Philosophy*, "'Modernity' and 'enlightenment' tend to be used interchangeably, whether by thinkers… who seek to sustain that project, or by those – the post-modernist company – who consider it a closed chapter in the history of ideas" (Entry by Christopher Norris in Honderich (ed.), 1995: 583).

The European enlightenment (as opposed to the Scottish enlightenment) can be seen as having its origins in René Descartes's search for a basic knowledge that is self-evident to reason and impermeable to the potentially damaging effects of scepticism. Since Descartes found his senses unreliable, the only way he could be sure he was alive and thus avoid the infinite regress of scepticism without descending into dogmatism, was the capacity for thought: "I think therefore I exist".

In answer to the question "What is enlightenment?" Kant answers: "Enlightenment is man's emergence from his self-incurred immaturity. Immaturity is the inability to use one's own understanding without the guidance of another." Individuals should use reason to free themselves from dogmas, a difficult but not impossible process. The enlightenment of the entire public is more practicable, but comes with a precondition: “Freedom to make public use of one’s *reason* in all matters.”

Of the social sciences, it is perhaps mainstream economics that exemplifies the interpretation of the enlightenment project of modernity as an unchanging and reliable conception of human reason that can be applied across all cultures and circumstances. The neoclassical tradition is interested, like Kant, in the use of individual reason publicly manifested – but neoclassicals believe this public manifestation of individual reason happens in the market. As a contemporary example of the way in which economics interprets modernity consider a passage from the textbook *Macroeconomics* by N. Gregory Mankiw , in chapter one, entitled: “The Science of Macroeconomics”:

> Macroeconomists are the scientists who try to explain the working of the economy as a whole. They collect data on incomes, prices, unemployment, and many other economic variables from different periods of time and from different countries. They then attempt to formulate general theories that help to explain those data…
>
> To be sure, macroeconomics is a young and imperfect science. The macroeconomist’s ability to predict the future course of economic events is no better than the meteorologist’s ability to predict next month’s weather. But, as you will see, we do know quite a lot about how the economy works (Mankiw, 1994: 4).

Mankiw includes a quote from John Stuart Mill at the beginning of the textbook:

> The same persons who cry down Logic will generally warn you against Political Economy. It is unfeeling, they will tell you. It recognises unpleasant facts. For my part, the most unfeeling thing I know of is the law of gravitation: it breaks the neck of the best and most amiable person without scruple, if he forgets for a single moment to give heed to it (Mill, 1867, in Mankiw, op. cit.: preface).

These four sentences are hardly representative of Mill's thought in general, but they portray economics as a science that can predict essential features of a single reality using data collection and Logic with a capital L. Disputing Logic is equivalent to denying gravity. The use of reason, in the sense of Descartes and Kant, is the principal tool in building the undisputable foundations of knowledge.

But it is unclear that Kant and Descartes ever believed the application of reason would always lead to predictable outcomes. As I shall show later, a number of thinkers (such as Bhaskar, 1978; Lawson, 1997a, 2003) dispute the idea that economics should set out to ascertain immutable laws. The distinction between modernism and modernity is helpful because if economics can be shown to be attached to the longer tradition of modernity, as well as being modernist, it makes it harder to dismiss postmodernism as a reaction to a mere century-long cyclical trend, but on the other hand it implies that modernity might not be overcome quite so readily as many postmodernists suppose. It also suggests that it is useful to include within any analysis the wider neoclassical tradition, not just the mid to late twentieth-century modernism of Samuelson and others. One lesson from postmodernism (although it is not unique to postmodernism) is that thinking is situated against a historical and cultural backdrop.

2.3 Open-systems approaches

Mainstream economics has a particular unspoken epistemology, which contributes to its scientism. Certain modernist approaches, as well as schools of thought originating in the tradition of modernity, advocate what amount to closed-system conceptions of knowledge. Seeing knowledge as a closed system means it is possible to pinpoint all the variables of interest in explanation, to discover the laws which link these variables and to determine whether or not the laws are capable of full knowledge or contain random elements. No unknowable non-random influences can affect the system since all variables can be isolated *a priori* as either endogenous or exogenous. Closure is achieved using constant event-regularities that are valid continuously and which in the natural sciences are discoverable by experimentation. In the social sciences event-regularities may be constructed through logical inference and supported empirically.

An example of a closed system is the general equilibrium approach, which aims to show how demand and supply simultaneously interact in several markets to produce prices for all goods. Prices are a product solely of components within the system and the way they behave and interact is rendered predictable by a number of restrictive assumptions. The general equilibrium method imagines that two price-taking, optimising consumers with perfect foresight buy or sell two goods under perfect competition. Closed-system approaches do not require assumptions to be realistic, since the concern is to isolate what they see as spatio-temporally fixed causal mechanisms not to explain existing states of affairs. Prediction matters most, rather than explanation (Friedman, 1953).

Open-system approaches, in contrast, do not see the isolation and knowledge of all relevant variables as being feasible, nor do they assume that the objects of knowledge are fixed across time and space. The causal mechanisms that under the closed system are posited as laws regulating the interactions between elements are, in an open system, open to change; indeed they are not laws in the same sense. This does not mean that knowledge is impossible, but that the enquirer must look for tendencies that may change.

Rationality is allowed to change over time, and knowledge is fallible in the Humean sense that humans cannot discover the true character of the world in its entirety (Dow, 2002c:139-40). The open-systems approach should not be characterised as indeterminate and postmodernist in its questioning of the possibility of unchanging laws; it does allow for knowledge, even if it changes and exists at a different level than in the closed-system approach.

Most methodological perspectives that strive for a synthesis beyond modernism and postmodernism are based on an open-system ontology since they aim to identify alternative ways of conceptualising knowledge beyond the foundationalism of modernism and the relativism associated with postmodernism. Three approaches that emphasise the openness of systems are critical realism, the Keynesian philosophical tradition and the neo-Austrian school. The first two approaches are not mutually exclusive – indeed they overlap – but they have different goals even if they are both critical of mainstream economics. The neo-Austrian perspective on open systems differs from the others primarily because it is methodologically individualist and has perhaps been more readily assimilated into mainstream economics.

2.3.1 Critical realism

Critical realism originates in the philosophical work of Roy Bhaskar (1978) and has been applied to economics by Tony Lawson, amongst others.[6] Lawson highlights what he sees as a number of inconsistencies in mainstream economics (Lawson, 1997: 4-14).[7] Economists often do not practice the method they preach. For instance while econometricians claim to follow the classical model of inference, in reality, collectively, they run thousands of regressions to estimate their models. If events in the world really were as generalisable as econometricians imagine, it would not be necessary to complement one or a number of regressions with thousands more.

In addition to this inconsistency at the level of method, Lawson identifies a discrepancy on the plane of social theory. Economics claims it is “choice theory”, but by using a closed approach in modelling it really disallows choice by denying the possibility that individuals could have acted otherwise. Humans are reduced to the components of a machine in which there is no room for unpredictable action.

Lawson also highlights a third inconsistency. While economists pretend that they do not need to worry about methodology and instead should just get on with the job, in practice they do engage in philosophical arguments and they do use a specific methodology without acknowledging it. “In summary, contemporary economics is not in a fit state. Most obviously, it fares poorly on its own terms; it neither provides particularly accurate forecasts of events nor illuminates the world in which we live. But of equal significance, the whole project is riddled with confusion and incoherence…” (*ibid.*: 14).

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[6] Bhaskar, 1978; Lawson, 1997a, 2003; Jackson, 1995; Downward *et al,* 2002.
[7] *ibid.*: 4-14; For the moment I will substitute “economics” for “mainstream economics”.

Removing the confusion and incoherence bred of deductivist closed-system economics is among Lawson's principal aims. Deductivism is not the same as deduction, a closely-related but distinct type of argument whereby a set conclusion must follow from a given set of premises. Formally if Q is deducible from a set of premises $P_1, P_2, ..., P_n$ then $P_n \supset Q$ is deducible from $P_1, P_2, ..., P_n$, and $n = 1, P_1 \supset Q$ is a theorem. Deductivism adds to deduction the idea that general laws can be assessed by examining specific instances.

Lawson contests the proposition that the laws specified within a theorem are event regularities which always occur as unchanging states of affairs or probabilities in the form of 'whenever event *x* then event *y*'. This type of model is labelled 'deductivist-nomological' (nomos is the Greek for Law)[8]. Lawson instead proposes the term "demi-regularities" or "demi-regs" to denote the periodic but not quite universal actualisation of a tendency or mechanism over time and space.

In contrast to the empirical realist tradition often associated with Hume,[9] Bhaskar and Lawson define realism as acknowledging the causal tendencies, mechanisms and powers that underlie the everyday apparent world. This is the first way in which transcendental realism differs from empirical realism. Second, it contends that three different levels of reality exist – the empirical, the actual and the real – which are out of phase with each other. No tendency, mechanism or power corresponds directly with each empirical event or sequence of events, rather 'non-isomorphism' means that events are co-determined by several influences. Objects can have powers even if these powers aren't used and tendencies can be seen as potentialities that aren't always realised in a specific outcome. For example gravity is

[8] Lawson also identifies it as the Popper-Hempel theory of explanation.
[9] However Hume has been interpreted in ways that are incompatible with his portrayal as a simple enlightenment realist, for example in Dow (2002d).

a tendency that exists irrespective of whether or not I lose my footing (Lawson, op.cit.: 23).

Because systems are open and there are no constant event regularities, it is not possible to dig out causal laws using empirical methods. Instead critical realism proposes the use of retroduction, which means moving from the phenomenal level to a less superficial causal explanation: "The central mode of inference is neither deduction nor induction. Rather it is retroduction. The aim is not to cover a phenomenon under a generalisation… but to identify a factor responsible for it, that helped produce, or at least facilitated, it. The goal is to posit a mechanism… which, if it existed and acted in the postulated manner, could account for the phenomenon singled out for explanation" (*ibid.*: 212). Retroduction draws on existing, fallible knowledge of causal mechanisms to posit specific mechanisms in particular cases.

Relating to insights from the science studies and anthropological literature which will be discussed in the next chapter, knowledge is a produced means of production, meaning that it is constructed in social mileux and is fallible because circumstances change. "Knowledge is a social product, actively produced by means of antecedent social products" (*ibid.*: 25). Rooting economic behaviour in society enables Lawson to deal with the second inconsistency in mainstream economics mentioned above, namely the way it deals with social theory.

Lawson proposes a social ontology that sees intentional human activity as the meeting point of structure and agency. The later book, *Reorienting Economics* (2003), reinforces arguments for the centrality of ontology in economics. Neither the social nor the individual is more important for explaining rational motivation; instead individual behaviour produces social relationships and structures, but social relations also create and condition the actions of individual agents. Following Anthony

Giddens, whose later work (Giddens, 1990, 1994a, 1994b) will be discussed in the next chapter, rationality and logic are not abstract, unchanging phenomena implanted in people's brains, but constitute dynamic and ever-changing tools situated in specific social circumstances. "The complex structures of the world are not revealed just by our sensing them directly. Nor is knowledge created out of nothing. Rather we start out, at any point in time, with a stock of knowledge, hunches, data, anomalies, suspicions, guesses, interests, etc., and through interacting with the world we come to transform our understandings. Knowledge, then, is found to be a produced means of production of further knowledge" (Lawson, 2003: 92).

The social ontology of critical realism can be seen as presupposing a form of reflexivity:

> …human beings not only initiate change in purposeful ways but also monitor and control performances (and indeed monitor the monitoring of performances; we are aware of our own state of awareness during the course of action)… Now it is clear that the social, including economic activity that each agent reflexively monitors is an ongoing flow, a continuous stream (Lawson, 1997: 177).

> Through confronting 'objects' of study we learn not only about them but simultaneously about ourselves, including, in particular, the errors of our current thinking (as well, no doubt, as something of our social-cultural situations, values, and so forth) (Lawson, 2003: 101).

We are aware of our awareness, and check it constantly rather than discretely. In a sense simply by admitting the distinction between epistemology and ontology (ie. by highlighting the 'epistemic fallacy' that rephrases statements about being to statements about knowledge of being) a notion of reflexivity is permitted, in the sense of a two-way interplay between action and thinking about action. If economics were to make explicit its conception of ontology rather than trying to ignore the issue, it would be likely to re-evaluate its epistemology. Maintaining a distinction between epistemology and ontology might require a periodic reappraisal of the interaction between what economics thinks about the world and what it believes about the nature of reality. The question of agency and freedom, often overlooked by much contemporary mainstream economic theory, becomes important. If humans just acted mindlessly without continuously redefining the way in which they acted, bearing in mind that a certain epistemology had meanwhile become part of what they did, then humans would conform to reified thought-patterns rather than continuously and self-consciously created modes of thinking. Relative unfreedom is therefore a possibility if the way knowledge is conceptualised is static rather than dynamic.

Seeing knowledge as a social product, or as being a process, does not mean a kind of truth relativism where it is impossible objectively to evaluate one piece of knowledge against another. One reason transcendental realism does not dissolve into relativism relates to Karl Mannheim's defence of his sociology of knowledge in his *Ideology and Utopia*, namely that it involves a kind of relationism (Mannheim, 1936). Relationism is the idea that whilst knowledge is social, epistemology, or the way that knowledge is understood, can advance, and hence we move toward objectivity but never quite get there. Another of Lawson and Bhaskar's defences against the charge of relativism, of course, is that a realist approach allows for the existence of only one reality.

Mannheim offers the earliest discussion of reflexivity and provides some of the backdrop to the science studies research. *Ideology and Utopia* tries, rather dubiously, to overcome the problem of relativism by suggesting that social enquirers need not be symmetric with the objects of their enquiry, and instead identifies a separate intelligentsia which by virtue of its standing outside normal class relations can perform objective analysis. This solution is arbitrary, and requires explanation as to why the intelligentsia should not be subject to the normal rules. Critical realism would overcome the problem of arbitrariness by performing self-critique: it realises that science itself is socially-generated and thus must be self-aware and constantly ready to change.

Certain authors, however, (such as Fine, 2004 and Davidsen, 2005) have identified inconsistencies in the critical realist project, particularly in its stance with regards to practical research. The idea of using case studies in chapters 6 and 7 has the secondary benefit of shedding light on the proposition that realist perspectives, applied to economics, often have not produced results that are consistent with their premises. A perspective which suggests that there is a domain of reality that exists independently of our knowledge of it, and which requires realistic assumptions rather than irrealist mathematical models should surely show what sort of methods might be selected in order to produce practical research. Arguing that the real world matters requires a demonstration of *how* it matters.

As chapter 4 shows, Pierre Bourdieu argues that realism is best served by the close involvement of the social researcher in the lives of the research subject. It is not enough simply to suggest that critical realism is a philosophical under-labourer for economics and does not need to produce practical research, when it has not yet achieved widespread acceptance, particularly among mainstream economists. This is not a damning criticism of the critical realist project, since it is possible to use realist methods in empirical analysis. An example from sociology of practical case-studies deriving from a critical realist position is Margaret Archer's *Structure, Agency and the Internal Conversation* (2003), which develops typologies of what she calls reflexive behaviour and examines several individual cases. Practical research using some of the ideas of critical realism might help the project become more internally-consistent, gain more widespread acceptance and therefore achieve its aims, which are partly to modify the practice of contemporary economics.

2.3.2 The Keynesian approach

The Keynesian idea of open systems has parallels with that of critical realism. Both are a reaction to orthodox approaches that try to ascertain fixed laws and event-regularities. Both see knowledge and human behaviour as products of social relations. In developing his vision of the acting economic subject Lawson draws upon Keynes' notions of money and uncertainty. Keynes argues that liquidity preference is partly a result of precautionary demand, an inherent conservatism amid uncertainty about the future direction of prices: "…our desire to hold money as a store of wealth is a barometer of the degree of our distrust of our own calculations and conventions concerning the future" (Keynes, 1973: 116). Even though money may not be an interest-bearing asset, unspoken wishes act as a kind of defence mechanism against future fluctuations (the other two reasons for liquidity preference are the speculative and transactions demand for money). Following Keynes, Lawson argues that tacit consciousness is a key motivator of economic behaviour.

Keynes's open-systems approach develops a specific approach to uncertainty. In the *Treatise on Probability* (1921) and elsewhere, Keynes starts from the view that there are certain kinds of human knowledge that cannot be known in advance. His targets are the utilitarian philosophers who provided a basis for classical economics. Keynes challenges the utilitarian tenet that human happiness is the presence of pleasures and absence of pain, and that in our moral behaviour we aim at the maximisation of utility.

The prerequisite of the utilitarian approach is that we must be able to calculate the consequences of our actions with certainty. But Keynes believes this to be unlikely because much of the time we do not know what will happen in the future. This forms an integral part of his economics: the higher the level of uncertainty, the more agents prefer to hold money and the higher the interest rate. Thus his philosophical approach, which regards uncertainty as of central importance, is integral to his economics.

> The hypothesis of a calculable future leads to a wrong interpretation of the principles of behaviour which the need for action compels us to adopt, and to an underestimation of the concealed factors of utter doubt, precariousness, hope and fear. The result has been a mistaken theory of the rate of interest (Keynes, 1937: 222).

Keynes distinguishes this type of unquantifiable risk – when the outcome of actions cannot be known – from quantifiable risk when it is possible to make calculations about the future based on probability distributions. Echoing Marshall's misgivings about the role of maths, he makes it clear that the former type of risk cannot be formalised whereas the latter can. Neoclassical economics is merely the special case of a situation where risk can be quantified.

> It is a great fault of symbolic pseudo-mathematical methods of formalising a system of economic analysis… that they expressly assume strict independence between the factors involved and lose all their cogency and authority if this hypothesis is disallowed; whereas, in ordinary discourse, where we are not blindly manipulating but know all the time what we are doing and what the words mean, we can keep 'at the back of our heads' the necessary reserves and qualifications and the adjustments which we shall have to make later on, in a way in which we cannot keep complicated partial differentials 'at the back' of several pages of algebra which assume that they all vanish (Keynes, 1936: 297-8).

Following this distinction he can be seen to employ the concept of 'human' or 'ordinary' logic which uses intuition, distinct from classical logic which requires a rigid definition of sets (Dow, 2002c: 150-1). This relates to Lawson's definition of rationality as a propensity anchored in the relation between acting human subjects rather than fixed for all time and derived from outside human experience. People do not make decisions based on a cold calculation of future likelihoods using universally-available knowledge; their behaviour depends on individual peculiarities and social conventions. So Keynes's conception of open systems requires non-market ingredients.

As Chick and Dow (2001) point out, a second dimension of Keynes's open-systems methodology is that it has a temporal causal structure. Money, liquidity preference and long-term expectations cause, and therefore happen before, investment demand. This then inputs into aggregate demand. Short-term expectations, together with wages and other costs create output, while demand afterwards creates prices and profits, whereupon expectations are revised. Because it is not possible to be sure how all the elements in the system interact, an equilibrium occurs which reveals the nature of the interaction between all the components in the system. "This equilibrium is a kind of temporary closure, which will break down as time goes on" (Chick and Dow, op. cit.: 713).

Keynes's is a *general* theory because it is supposed to be a broad explanation of the nature of general economic activity, many components of which interact over time in a specified way and rely on each other to produce useful explanation. Extracting one feature of the *General Theory* and using it (for example in developing a mathematical formula) without accepting other dependent features would interrupt the temporal idea of the system. Keynes's General Theory is also general in that it covers unquantifiable risk (uncertainty) as well as quantifiable risk.

Where in the natural sciences it is possible to close the system completely by performing an experiment, Chick and Dow (2005) argue that social science is unable to close the system in a similar manner since its subject matter is always changing, making experimentation unreliable. Here, they depart from critical realism in that Lawson (1997, 2003) argues that the property of closure defines closed systems, and that any system which involves closure, even if provisional, must by definition be a closed system. Chick and Dow suggest that the use of temporary closure allows analysis to proceed even within an open system. Most discussion in the arts, humanities and sciences involves boundaries, which are a form of provisional closure. In economics Chick and Dow (op. cit.: 376) point to the example of *ceteris paribus*, a device which permits the temporary suspension of reality in order to help develop models. Importantly, the suspension of reality is only temporary, and subsequently such temporary devices can be lifted. In sum, for Chick and Dow, who outline a post-Keynesian approach, temporary, partial closure is allowed under Keynes's method, even if the tools used are human logic rather than classical logic, and inference rather than laboratory experimentation. This may lead to a messier picture of reality, but it is, in this interpretation of Keynes, more realistic.

2.3.3 The neo-Austrian approach

Neo-Austrian thinking is represented by the work of Friedrich Hayek (1944, 1945, 1966), Israel Kirzner (1973, 1985) and Murray Rothbard (1963) . The work is less mainstream than that of the founder of the Austrian school Karl Menger (1963), and it can be contrasted with Hayek's near-contemporaries Eugen Böhm-Bawerk (1970), Ludwig von Mises (1962) and Joseph Schumpeter (1944).

Of the three open-systems approaches the neo-Austrians draw closest to postmodernist tactics because they emphasise microeconomics and proceed on the basis of case studies (Dow, 2002c: 124). Many neo-Austrians would perhaps assent to Jean-François Lyotard's "Collapse of Grand Narrative" in their advocacy of a particularist approach. Neo-Austrian thought is perhaps the methodological opposite of Keynes's conception of a general theory since it disputes the notion that a single conception can approximate useful knowledge of an economic system. In contrast to critical realism or Keynes the neo-Austrians do not think it useful to talk about socially-generated knowledge. But like Keynes and critical realism neo-Austrians are sceptical about the use of formal methods, even if for different reasons.

Neo-Austrians think that systems are open because of the Hayekian belief that knowledge is inherently specific to the individual; no planner – even with the sophistication of Oscar Lange's supercomputer (Lange, 1938) – could ever know what every particular consumer knows. Because outsiders cannot access all personal knowledge, it is impossible to assign immutable tastes to a fixed theoretical consumer. The individualistic and shifting character of knowledge make it unpragmatic and undesirable to try to assign event regularities and laws to variables within a closed system.

From early on Hayek showed a desire to move beyond closed systems. In *Monetary Theory and the Trade Cycle* he identified money as the reason the market-clearing mechanism didn't work in the trade cycle. "Money being a commodity which, unlike all others, is incapable of finally satisfying demand, its introduction does away with the rigid interdependence and self-sufficiency of the 'closed' system of equilibrium, and makes possible movements which would have been excluded from the latter" (Hayek, 1966: 44). The inclusion of a capital goods sector in his theory of the trade cycle meant that he could accommodate the way in which money affected other aggregates.

Chick and Dow point out that neo-Austrians allow for definitions of terms to vary in practice. Money, for example, cannot be encompassed by a closed, equilibrium approach because various agents think of it differently. It can be defined in general as those assets which are perfectly liquid, but specifically agents may think of various bank accounts as having different levels of liquidity and thus to try to identify monetary aggregates is impossible (Chick and Dow, op.cit.: 710). Hayek is suspicious of statistical aggregates in general, believing them inevitably to agglomerate incompatible scraps of subjective information.

Hayek's thought changed in later years when he became more interested in methodological issues. In particular he showed antipathy toward what he called scientism, which consisted of amongst other failings historicism, collectivism and objectivism. Historicism was undesirable because it looked for unfaltering laws that govern human behaviour. He argued against collectivism for its attempt to analyse aggregates – like society or the economy – beyond the level of the individual. Objectivism meant looking at science as the examination of an observable, objective reality, and is wrong because people differ in their subjective views. Scientism is thus inextricable from closed-systems methodology. However Hayek did believe economics to be a science, even if it studies complex phenomena and is limited in its ability to produce testable forecasts (Davis *et al*, 1998: 224).

His 1945 paper 'The Use of Knowledge in Society' buttresses the critique of scientism by arguing that:

> *If* we possess all the relevant information, *if* we start out from a given system of preferences and *if* we command complete knowledge of available means, the problem which remains is purely one of logic…The conditions which the solution of this optimum problem must satisfy have been fully worked out and can be stated best in mathematical form…

> This, however, is emphatically *not* the economic problem which society faces. And the economic calculus which we have developed to solve this logical problem, though an important step toward the solution of the economic problem of society, does not yet provide an answer to it (Hayek, 1945: 519).[10]

The economic problem, in Hayek's view, is how to co-ordinate and use economic knowledge, which no single person or group can uncover in its entirety. State planning is doomed to failure because it cannot achieve full knowledge of all the interactions in an economy, and partial planning is condemned as a half-way house. Only price signals realised in competition can synchronize the innumerable fragments of non-scientific knowledge which exist in time and space. In response to a cutback in supply of a good even the "man on the spot" need not know *why* prices rise; all that is important is that he reacts by reducing his consumption.

Although the neo-Austrians come from a contrasting intellectual tradition, they share the Keynesian and critical realist opposition to a view of economics as the pure classical logic of choice, an approach encouraged by the Austrian-influenced Lionel Robbins. Brian Loasby attributes the following view to modern Austrians: "… the pursuit of rigour in rational choice theory has entailed ever tighter specification of the choice situation, with the result that what began as spontaneous human action emerges as fully programmed behaviour in which all problems of knowledge are expunged" (Loasby, cited in Mair and Miller, 1991: 55).

This sounds very like Lawson's second inconsistency in economics, that it disallows choice by denying the possibility in economic modelling that individuals

[10] Italics in original.

could have acted otherwise. The other reason why neo-Austrians dispute the notion of economics as the pure logic of choice, according to Loasby, is that they seek to examine what happens outside equilibrium rather than redefining rational behaviour, as neoclassicals attempted to, in order to be able to represent the economy as a system of equations.

2.4 Conclusion

The dilemma between postmodernism and modernism is crucial for contemporary economics. Should we continue with a discipline that believes its object of analysis is a closed system containing atomistic individuals that act in probabilistic or predetermined ways? Or should we "salute Nietzsche and all go our independent ways" (Giddens, 1994a: 252), abandoning hope of useful science?

Neither. While postmodernism rightly emphasises the unknowable and reasserts the importance of the social sphere, modernism is a valued defender of science and a safeguard against relativism. This does not mean cultivating economic modernism's ambitions toward omnipotence, nor does it lead to the "philosophy of flower power," as some have labelled postmodernism. Rather, better science means recognising the grey areas of social analysis; accepting our inherent inability to achieve universal knowledge; and understanding that we are the creators of the disciplines through which we understand the world.

If any social science is the progeny of the enlightenment, it is economics. Yet it is far from clear that the fathers of enlightenment thinking ever believed that pure reason would tighten our grip on the world. In the *Critique of Pure Reason* Kant adds an important caveat to his definition of enlightenment: "Dogmatism is the dogmatic procedure of reason, without previous criticism of its own powers."[11] In a sense reason is all the more potent if it recognises its limits. No science can stand still: it must constantly re-evaluate its tools, re-assess its own project and situate itself inside the world it purports to be discovering.

Most social sciences have acknowledged the internal contradictions of the enlightenment; that some attempts to control human life actually lead to greater uncertainty. Understanding that the institutions and concepts of modernity are biting back after originally being designed as tools for increased control requires that we improve and redesign these tools and institutions. Realising that previous ways of thinking no longer produce predictable outcomes places emphasis on human agency.

Lawson points out that: "…knowledge that proved to be revelatory when it was obtained, eventually takes on the appearance of the banal or of common sense" (Lawson, 1997: 223). It is not the revelatory knowledge that is at fault, it is an inflexible interpretation of it. Avoiding banality means seeing modernity as dynamic and infused with reflexivity. If economics is a microscope through which we examine the economy, the magnification is no longer strong enough, the lens clouded and the slides dusty. We need to take our eye from the viewfinder, examine the wider picture and bring in new optics. As Skidelsky says of Keynes: "He wholly endorsed Marshall's view of economics as 'not a body of concrete truth, but an engine for the discovery of concrete truth'" (Skidelsky, 2003: 464).

The world is not just a series of snooker balls rebounding in probabilistic or predictable causal ways; some of it is unknowable and we employ different logics to discover it, from classical logic to Keynesian 'ordinary' thinking. Even the path of real snooker balls is subject to a chaos of physical influences. In the social sphere,

[11] *Critique of Pure Reason*, preface to the second edition, B xxxv.

various kinds of relations form an integral part of modernity, perhaps more so than in any other period of human history. If logic is not to suffer postmodern relegation to just another way of thinking, and if it is to lead to a more useful understanding of the world, economic enquiries must declare their allegiances, state their goals and examine their own projects.

Open systems approaches – from the neo-Austrians through to Keynes and critical realism – see the object of enquiry of economics as ever-changing and open to unpredictability. Closed system approaches resort either to the belief that individuals can act freely without outside influence, or to the extreme of determinism – the complete subsumption of individual autonomy by external circumstances. Their predominantly mathematical persuasions strip their subject matter of realism. It is not mathematical methods that are to blame, but the blanket application of formalism irrespective of context. As Keynes points out, some areas of thinking are incapable of calculation, and indeed achieving a realistic picture of uncertainty builds understanding.

This chapter has examined the ways in which open systems approaches attempt to move beyond the methodological distinction between modernism and postmodernism. The next chapter goes further, looking at how the concept of reflexivity aims at developing an explicit, and specific, approach which goes beyond modernism and postmodernism but which is compatible with some of the ideas of those in the open systems tradition.

3. THEORIES OF REFLEXIVITY

3.1 Introduction

It is not just open-systems approaches that have attempted to move beyond the methodological divide between modernism and postmodernism. Several theories of reflexivity are explicitly directed at transcending the divide, both on the philosophical and the practical levels. Indeed most theorists of reflexivity argue that philosophy and practice are, or should be, closely connected. This idea echoes the critical realist social ontology and the idea of retroduction, as well as the more socio-economic strands of post-Keynesianism.

Philosophers have grappled with word games like the liar's paradox (cited in the introduction) for millennia, and will probably continue to do so. Some commentators have even dismissed the idea of reflexivity in a flippant manner – for instance Krugman mentions, "the general principle of "reflexivity," which I take to mean that human perceptions both affect events and are themselves affected by them. Gosh, I never thought of that!" (Krugman, 1998).

The term is more interesting than just the idea that human perceptions both affect events and are themselves affected by them. It has been developed in a number of complex ways during the last century of social science, and this chapter aims to trace the origins of the term in anthropology, the sociology of knowledge, social theory and economic methodology. The discussion is not exhaustive and excludes several treatments of reflexivity.[12] An attempt is made to assess whether the different

[12] Including Soros (1996), Archer (2003) and Cross and Strachan (1997).

manifestations of the term in recent social theory have features in common which may have relevance to current thinking in the methodology of economics.

First is a discussion of the Marxist origins of the term and Mannheim's development of the sociology of knowledge. Some of the anthropological literature on methodology draws heavily on Mannheim (1936) and Marx (1974; Tucker, 1972). Second, Pierre Bourdieu's (1972, 1992) use of reflexivity is outlined at some length. Bourdieu has the advantage of having conducted anthropological research in developing countries (which has relevance for development economics) using what he considered to be reflexive methods. He has also commented on contemporary economics. Third is a discussion of the quite different use of the term reflexivity in economic methodology, which itself uses the sociology of knowledge literature. Finally the idea of reflexive modernisation is introduced. Whilst its proponents Anthony Giddens (1990), Ulrich Beck and Scott Lash (1992) are doing social theory in its grandest sense, the concept has methodological implications for economics.

3.2 Reflexivity and anthropology

In anthropology the concept of reflexivity can be traced to Marx's view in the *German Ideology* that economic class is a determinant of ideology. "The ideas of the ruling class are in every epoch the ruling ideas, ie. the class which is the ruling *material* force of society, is at the same time its ruling *intellectual* force" (Marx, 1974: 64). Whilst this is Marx at his more determinist – other formulations of the ideology thesis are more subtle (for example see Bocock and Thompson, 1985)[13] –

[13] It is further worth noting that although Marx considered religion to be ideological, he was not as critical of religion, or as dismissive of its followers, as is often suggested. The sentence before the famous quote that religion is the "opium of the people" reads: "[It is] at one and the same time, the expression of real suffering and a protest against real suffering.... the sigh of the oppressed creature, the

Marxist thinking generally implies that certain forms of accepted knowledge tend to support prevailing relations of production. For example economic inequality, which is in the material interests of the ruling class, might be portrayed as a universal good because it creates economic incentives, but to lower-income groups it simply represents a poorer standard of living and is to be overcome. Thus knowledge does not pre-date human interaction, as a foundationalist might suggest, but is contingent on immediate social and economic relations.

Under Marx's version of materialism the relation between the subject and object is dialectical in that the active subject transforms the passive object, producing knowledge in an active procedure. Knowledge is not a fixed substance (it is clear where critical realists draw their social ontology) but a process. Marx suggests in the *Theses on Feuerbach* that: "The question whether objective truth belongs to human thinking is not a question of theory, but is a *practical* question. Man must prove the truth, that is, the reality and power, the this-sidedness of his thinking in practice. The dispute over the reality or non-reality of thinking which is isolated from practice is a purely *scholastic* question" (Tucker, 1972: 144). Philosophers (including economists) who try to theorise in a vacuum, disconnected from the material conditions of society, are unlikely to produce results that have full practical relevance to everyday human existence. Whilst all mainstream economics cannot be dismissed as mere false consciousness, and the idea of false consciousness itself is only one interpretation of the Marxian ideology thesis, Marxist thinking about ideology lends the insight that economic thinking is not hewn from granite, but must be seen against its (changing) historical and social backdrop.

heart of a heartless world, the soul of soulless conditions."

Mannheim considered his sociology of knowledge to be a development of the Marxist method, although he is less concerned than Marx with economic relations and instead prefers to examine the social production of knowledge. In order to ground theory in the world of the practical, to anchor philosophy in the world of the everyday events of humans, Mannheim concurs with the Marxian notion that it is necessary to envisage knowledge as a product of specific circumstances. "The principal thesis of the sociology of knowledge is that there are modes of thought which cannot be adequately understood as long as their social origins are obscured" (Mannheim, 1936: 2). For Mannheim (as for Marx) there is no Hegelian 'Geist' which eclipses the individual, and nor is it accurate to see individuals as spontaneously producing knowledge in isolation. Instead, knowledge must be examined in the context of group existence.

Mannheim describes the central purpose of his project as the simultaneous examination of the subject as well as the object. He hopes to bring to the surface all the "values and collective-unconscious" at work in any examination of the object, believing that it is necessary to be aware of the role of interests in order to achieve a "new type of objectivity". In his critique of past ways of thinking about theory Mannheim engaged in a project contemporary with that of Max Horkheimer, who in his essay "Traditional and Critical Theory", published the following year (1937), laid out the foundations of the Frankfurt School belief that a theory which is critical must be self-reflective, capable of emancipation and aware of the social character of theory. Horkheimer concurred with the notion that 'theory' is not a passive, scholarly activity performed in the academy; it should be directed at changing our collective conditions of existence. This cannot occur unless its social embededness is understood: "…the insistence that thinking is a fixed vocation, a self-enclosed realm within society as a whole, betrays the very essence of thought" (Horkheimer, 1937: 243).

Mannheim argues that self-reflection is a product of the European enlightenment. Before this time, ideas were disseminated by the church and religion simply taken as given without the realisation that it was a creation of human society. In general the production of ideas was the preserve of a certain social stratum and others were precluded from this. Amongst others, Marx is credited with the recognition that such thinking is one facet of alienation and as such is ideological.

For Mannheim, Marx's concept of ideology 'unmasks' the real motivation behind the thinking of a dominant class or stratum. In its classical form the concept of ideology showed that the interests of the ruling class cause it to promote certain ideas, ideas which it persuades the subordinate class are in its interests but which in fact perpetuate its subjection. Mannheim's working definition of ideology fits with Marx's but he focuses more on the pernicious implications of ideology for the dominant class itself: "Ruling groups can became so intensively interest-bound in their thinking that they are simply no longer able to see certain facts which would undermine their sense of domination" (*ibid.*: 36).

Mannheim's decisive break with Marx comes with the corresponding idea of 'utopia', in a sense the opposite of ideology. Utopian thinking arises when groups or individuals wish to transcend the present social order and its accompanying categories and institutions. Such thinking achieves only a plan for action rather than objective explanation, since it is focused on a critique of negative social features to the exclusion of the positive.

For Mannheim, Marx's recognition that the ideas of the dominant stratum represent certain class interests is important but not sufficient. "To-day, however, we have reached a stage in which this weapon of the reciprocal unmasking and laying bare of the unconscious sources of intellectual existence has become the property not of one group among many but of all of them" (*ibid.*: 37). Here, Mannheim is drawing on the Weberian recognition that historical materialism is not a tool to be used selectively by Marxists when they talk about the dominant class, but that the material contextualisation of thought applies also to users of historical materialism.

This is the core of the way anthropologists use the term reflexivity. "To be reflexive, in terms of a work of anthropology, is to insist that anthropologists systematically and rigorously reveal their methodology and themselves as the instrument of data generation" (Ruby, 1980: 153). In other words, like Mannheim, anthropologists recognise that it is not enough to highlight the social or contextual backdrop of societies under study: the same process must apply to themselves. The idea of reflexivity became popular in post-war anthropology partly as a reaction to the subjectivist approach of Bronislaw Malinowski in his studies of Melanesian society who, it is claimed, "lived as a native among the natives for many months together, conversing with them in their own tongue…" (Malinowski, 1978: vii). It became clear that while Malinowski believed he had embedded himself in the society he was studying, in fact he was unable to escape his own preconceived beliefs and cultural tendencies – such as the category "native" itself.

Anthropologists, particularly in the neo-Weberian economic anthropological tradition (see Billig, 2000) (it is sometimes forgotten that at Freiburg and Heidelburg Weber was a professor of economics, rather than sociology), subsequently argued that it was important to perform analysis on themselves; to lay bare their own motivations and social origins. Rejecting the foundationalist view that knowledge exists independently of human activity, they suggested that revealing the predispositions and preconceptions of the researcher tends to make research more believable and hence more valid.

3.3 Pierre Bourdieu

But this anthropological use of the term reflexivity was not without its problems. Some began to suggest that it led simply to introspection and stasis – too much time was spent on method, and not enough actually performing research. Pierre Bourdieu (1992: 72) writes that: "I must also dissociate myself completely from the form of "reflexivity" represented by the kind of self-fascinated observation of the observer's writings and feeling which has recently become fashionable among some American anthropologists… who, having apparently exhausted the charms of fieldwork, have turned to talking about themselves rather than about their object of research." Here he is taking aim at figures such as Geertz (1976), who understood reflexivity as self-analysis.

Bourdieu argued in his famous (1972) structuralist analysis of the Algerian *Kabyle* house that it is not possible for the researcher to attain an outside, objective picture of reality without immersion amongst the objects of examination, but neither is the subjective experience of the examined alone enough for complete understanding. Bourdieu redefined Malinowski's term "participant objectivation" to show that researchers impose their own predispositions on a subject-matter; they tend naturally to objectify a situation, and yet they must also recognise that this objectification applies equally to themselves. As with the anthropological method researchers must perform self-enquiry; to turn the tools of examination upon their own activity.

Bourdieu differs further from the anthropological version of reflexivity in that he suggests that enquiries, rather than the author, should be the focus of attention. He expresses justifiable scepticism about the rather self-obsessed and inward-looking character of much reflexive enquiry in the anthropological literature. Instead of entirely doubting the possibility of theory, science should simply be aware of its boundaries, and any theoretical account of social phenomena should possess self-awareness. In its greater optimism about the possibilities for scientific enquiry and its explicit avoidance of relativism or nihilism this position perhaps represents an advance on the introspection of the reflexive anthropologist. “The upshot of this is not that theoretic knowledge is worth nothing but that we must know its limits and accompany all scientific accounts with an account of the limits and limitations of scientific accounts: theoretical knowledge owes a number of its most essential properties to the fact that the conditions under which it is produced are not that of practice” (Bourdieu, 1992: 70).

Bourdieu is particularly relevant for the subject at hand because he proposes a method that tries to transcend the modern/ postmodern divide (if indeed there is a ‘divide’ in the modernist sense), and he simultaneously criticises the universalising methods of neoclassical economics and in particular what he calls ‘rational action theory’ on the grounds that economists wrongly substitute one, material, self-motivated interest for the plurality of ‘interests’ that motivate human behaviour. In *The Social Structures of the Economy* (2005) Bourdieu uses a study of the French housing market to argue that people buy houses not just because of price or individual preference, but because of a network of social influences including advertising and state power. Because markets are socially constructed, the methodological individualism of neoclassical economics and its abstract mathematical tools are alone inappropriate for achieving full understanding. For Bourdieu, sociology must accompany economic analysis. A specific epistemological stance underpins this critique, elaborated in *An Invitation to Reflexive Sociology* (1992), *In Other Words* (1990a) and *The Logic of Practice* (1990b).

Whilst it would be reductionist to talk of modernism/objectivism versus postmodernism/subjectivism, the latter dual tends to be grouped together and modernist thought frequently implies that an objectivist view is possible. The Washington Consensus, which will be discussed in the next chapter, revolves around an epistemically objectivist picture of reality, whereby economic facts can be unearthed and data analysis performed using known 'laws'. The tools of investigation are the same wherever they are used, while axioms are derived from basic premises. Axioms depend on a logic which is user-independent. The outside analyst can therefore visit a country with the intention of curing economic problems, free from the questionable influence of his or her own prior values. Epistemic objectivism is different from ontic objectivism, a term which realists use to describe a deeper level of reality which it is the task of social science to discuss. In other words it may be possible to 'be objective' without necessarily being objectivist about knowledge.

Objectivism is sometimes allied with structuralism, in the sociological sense (Levi-Strauss, 1964; Althusser, 1996, 2001), which concerns the analysis of social structures that transcend individual behaviour.[14] The Washington Consensus contains features of structuralism, identifying ahistorical aggregates that extend beyond the individual, and which can be used by the observer to explain and alter the system being analysed.

[14] As opposed to the structuralist school of development economics that began in Latin America in the 1940s.

Epistemic subjectivists, in contrast, would deny that an objective view is possible, instead pointing to the role of human values in interpretation. This is not simply to acknowledge that subjective views of economic phenomena exist. Most economists would surely accept this. It is to promote the idea that it is not possible to analyse or assess a particular situation without the viewpoint of the observer intruding on the results. What appears to be an objective, clear-cut account may be coloured by the perspective of the author, and therefore the 'objective' 'structures' identified by structuralists are not really there. Advocates of the Washington Consensus may present it as yielding objective advice but it is heavily influenced by the values of its architects and practitioners. The materialist worldview of Washington may not translate, for example, to traditional societies where spiritualism and communalism predominate. It is not possible fully to understand the experience of another – to 'put yourself in their shoes.'

Subjectivism can be illustrated by the unlikely trio of economic marginalists, existentialists and post-structuralists. For the marginalist school, prices depend on the value individuals ascribe to things rather than an objective foundation such as the labour theory of value.[15] For Jean-Paul Sartre, an inter-subjective break precluded the identification of overarching social structures; experience was irretrievably personal and the external world had at best limited bearing on the course of life, which is determined largely by individual volition. Post-structuralists in the Derridean mould criticised Levi-Strauss for, amongst other mistakes, imposing foreign standards on the societies he examined. Any attempt to 'get inside' the society being scrutinised, without examining the system of knowledge-production, is doomed to failure. According to the epistemic subjectivist's position, an outsider would be unlikely to

[15] This is a good example of why it would be inaccurate to suggest that no subjectivist economic approaches are Neoclassical, or that modernism is uniformly anti-subjectivist.

solve an economy's problems because even the conceptualisation of those problems – never mind the proposed solutions – would inevitably depend on the values of the observer rather than the observed. Doing economics would surely be a difficult task.

For Bourdieu, an ontological realist, the opposition between the objective and the subjective is analytically valuable in that it advances the discussion to a certain stage, but it is a divide which must be transcended.[16] 'One of the central themes of Bourdieu's work is the attempt to understand the relationship between 'subjectivity' – individual social being as it is experienced and lived from the personal inside out, so to speak – and the 'objective' social world within which it is framed and towards the production of which it contributes. This theoretical project is a key aspect of Bourdieu's attempt to develop a sociology which can transcend the subjectivist/objectivist dichotomy…' (Jenkins 2002: 25).

This echoes Marx and Mannheim's attempts to examine simultaneously the subject and the object. The practical melding of the subjective and the objective emerged in Bourdieu's study of the Kabyle in Algeria, where he aimed to achieve subjective understanding but into which elements of an objectivist approach intruded. Using the guile of the embedded anthropologist, he wanted to portray the real, detailed life of the peasant as he or she might experience it; but in digging beneath the surface he revealed hidden features such as the categorisation of the outside of the house as male and the interior female, and the gendering of domestic items, including furniture and food. Such findings clearly have wider significance which is intelligible only from outside. While discoveries like these are fascinating from the observer's point of view and might take the appearance of objective reality, they cannot be expressed in anything but subjective terms. The maleness of the outside of the house

[16] Some, such as Mouzelis (2000: 742), have questioned the possibility of 'transcending' the traditional divide between structure and agency.

might change over time, not every house might be similarly divided, and the finding only makes sense in terms of the way gender is perceived by the Berber people. Bourdieu's analysis is neither objectivist nor subjectivist; it is both.

Bourdieu's concern with reflexivity can be seen in his discussion of the Béarn region of France, where he was brought up and subsequently returned to study. He was simultaneously, and purposefully, the researched and the researcher, directing analysis toward something of which he was a part. He considered this situation to carry the advantage of academic training applied to a situation of which he had intimate personal knowledge. A further example of reflexivity in practice came with Bourdieu's analysis of the French academic community in *Homo Academicus* (Bourdieu, 1998) – a community of which he was member, but on which he was also a commentator. Many different versions of reflexivity exist, and Bourdieu is at pains to show that his is not of the navel-gazing variety. His point is that achieving useful explanation and epistemological integrity means combining insider-knowledge and external detachment; the subjective stance of the observed complements the objectivity of the observer, and it is possible for the researcher to approximate a position which is simultaneously both insider and outsider. The scientific techniques of the outsider help to 'see things with fresh eyes', whilst few can possess the tacit knowledge of the insider.

Bourdieu specifically addresses the purported objectivity of some social science and anthropology by showing that attempts to achieve detachment from the object of analysis distort understanding. The values, norms or ideals under scrutiny begin to take the appearance of rules, to which it is imagined a community always conforms. These 'rules' might change, and may only be identified as unchanging symbols because they were prominent at that particular moment, and because the researcher was unconsciously looking for certain traits. For example Captain Cook began the myth of the licentious Tahitian after witnessing a sexual display between a middle-aged man and a young girl. Later research sheds doubt on the perceived regularity of such behaviour, suggesting that the locals had decided to put on a show for their visitors (Thomas, 2004). The behaviour may have been odd, but it was not routine.

This is the type of analysis to which Bourdieu refers when he says that it is necessary to: "call into question the presuppositions of the 'objective' observer who, seeking to interpret practices, tends to bring into the object the principles of his relation to the object, as is shown for example by the privileged status he gives to communicative and epistemic functions, which inclines him to reduce exchanges to pure symbolic exchanges" (Bourdieu, 1990a: 27).

An important dimension of Bourdieu's writing on epistemology is the emphasis on the need to marry theory and practice. Here, like critical realists, he draws on Marx's famous statement in the eleventh Thesis on Feuerbach that "the philosophers have only *interpreted* the world, in various ways; the point, however, is to change it" (Tucker, 1978: 145). For Bourdieu it is impossible to conduct empirical research, epistemology or theory separately: Research is blind without theoretical structure and pure theory is redundant if not informed by the facts or some strong connection with reality. As Jenkins puts it: "… only insofar as one does things is it possible to know about things" (Jenkins, op. cit.: 69). Bourdieu can therefore be used to deal with the problem that much contemporary economics, including the theoretical underpinnings of the Washington Consensus, has become far removed from practical reality. His advocacy of praxis demands that any theoretical project reflexively interacts with the real world, in a more profound sense than merely doing a case-study, but by the intimate involvement of development economists in the everyday lives of their target audience.[17]

Bourdieu's approach suffers inconsistencies. He rightly highlights the validity of different kinds of knowledge, be they the findings of the 'expert' outsider or the inside knowledge of the group under study. In an effort to remain practical he gives special privilege to statistics, believing they offer better description than other methods; a trait which dates to his account of the Berber. But this privileging of statistics forgets that all data is produced. The subjectivist ideal type, even if it cannot be separated analytically from objectivism, has the benefit of showing that statistical categories are not neutral or objective and that they can be used to reflect the aims of the statistician. Giving special consideration to descriptive statistics is not necessary in order to remain practical and it undermines Bourdieu's attempt to stress the importance of a mode of analysis which is both local and universal.

Bourdieu's project is central to social theory, which concerns overcoming the 'fallacy of composition' which says that what is beneficial for an individual is beneficial for the community. His discussion is therefore highly relevant for economics. His examination of the social influences on behaviour such as upbringing, class background, culture and surroundings – including what he calls 'habitus' – leads to an explanation of how humans are at liberty to pursue action outside such constraints, and indeed how structure and agency interact. Whilst structuralism is valid in the sense that structures exist that extend beyond the individual, subjectivists are also right to throw doubt on the purported neutrality of objectivists. Bourdieu considers himself to have reduced the tension between, or gone beyond, structure and agency, and to that end is highly critical of contemporary mainstream economics,

[17] World Bank and IMF economists continue to be criticised for flying in by business class to developing-world capitals, staying in five-star hotels for a week while they dispense advice, before leaving for another continent.

which he considers (in common with critical realists) to have excluded room for human agency.

3.4 The sociology of scientific knowledge

The sociology of scientific knowledge (SSK) emerged roughly contemporaneously with Bourdieu, and was represented principally by Steve Woolgar (1992, 1998), Malcolm Ashmore and David Bloor (1976). SSK also evolved from the Marxist literature and drew on Mannheim, but it evoked reflexivity differently. SSK sees science as influenced, like every other activity, by social interests and undeclared predispositions. No independent criterion exists from which to achieve scientific knowledge. Highlighting the social backdrop of scientific enquiry enables SSK to contextualise some of the positivist claims put forward by scientists and social theorists.

Woolgar and Ashmore define two varieties of reflexivity which operate on a continuum: constitutive reflexivity and 'benign introspection'. The latter type involves a marked difference between the author and the topic (or between object and underlying reality). Authors should be aware of their potential biases and predilections. At the other extreme constitutive reflexivity means that the author and topic are inextricably linked; there is an intimate inter-relation between the object and underlying reality, similarly between representation and object. In other words, it is almost as interesting to find out about the author as it is about what they are writing.

But for SSK, although Woolgar and Ashmore appear to deny it, constitutive reflexivity becomes a problem. If scientific knowledge is a product of social relations, then for SSK to claim scientific knowledge it must also be produced. In other words, SSK was subject to the very social influences that it is trying to analyse, but if this is the case, then why should we believe SSK? It must claim some sort of superior status outside society, but then surely this disputes the whole claim that knowledge is socially constructed? Mannheim's idea of relationism – or the evolution of how knowledge is perceived – will not suffice, because the intelligentsia which is supposed to identify this evolution are arbitrarily given a position outside normal social relations.

Esther-Mirjam Sent examines the issue of reflexivity with reference to the work of Thomas Sargent on rational expectations (Sent, 1998). Macroeconomic predictions may actually affect the behaviour of agents, making predictions self-fulfilling or self-defeating. Sargent believed that he could overcome this problem of reflexivity by replacing adaptive expectations with rational expectations. Agents, in making decisions, use the same macroeconomic predictions as economists. Sent, does not, however, believe that Sargent's solution – adopting a vector autoregression model over the restricted distributed lags approach – overcmes the problem of reflexivity.

Sent also acknowledges her own dilemma: "If sociologists of scientific knowledge are *symmetric* with scientists, then, why should we take their word over that of scientists? If sociologists of scientific knowledge are *asymmetric* with scientists, then, what kinds of standards can they employ to establish their privileged position" (*ibid.*: 122)? Why should we believe Sent any more than Sargent? And if readers of the book have an equally valid view of Sargent as that of Sent, does reading the book take them any further? At this stage, we become subject to the same sort of relativist aporia as in the liar's paradox. If all views are equally valid, then why should any be believed more than another? Why, in fact, should anyone be interested in what is being written here?

A way of addressing this type of reflexivity problem, Sent argues, is to see Sargent as re-writing his own history and at the same time to believe that it is entirely acceptable also to re-write his history, without being influenced by the way in which Sargent latterly tells his story. As long as Sent states the dilemma and outlines her objectives, she could be seen as having something useful to say about Sargent. The dilemma may not be resolved, but as John Davis and Matthias Klaes (2003) point out, a kind of 'second best' answer has been achieved. The identification of different types of reflexivity can help resolve the difficulty of relativism.

Davis and Klaes propose rescuing the situation by distinguishing between three different types of reflexivity: endogenous, epistemic and transcendent. "Reflexivity can be seen as benign if the endogenous reflexive relation that includes us as observers can be epistemically investigated without jeopardising our status as observers" (*ibid.*: 5). Endogenous reflexivity is the type of reflexivity that operates within the text, that can be contained and talked about without compromising the objectivity of the observer, even if the observer is subject and object at the same time. This was the type of reflexivity suffered by Sargent when he found that predictions can become self-fulfilling or self-defeating.

The second, epistemic, kind of reflexivity is further-reaching: it transforms the subject into an object. This involves the relation of the text to the creator of the text. Instead of looking into a mirror and seeing a reflection, it is as if the mirror somehow reaches back and twists your features. The subject/object distinction is thereby reversed or dissolved, and instead of subject A acting on object B, end of story, subject A acts on object B then B transforms into a subject that objectifies A. Davis and Klaes might say that even if Sent is implicated in her own analysis of Sargent, it is still possible for her to produce valuable analysis if we can find out about the way in which she is conducting her project. It becomes imperative that Sent, as enquirer, declares her assumptions and performs self-critique.

A third type, transcendent reflexivity, encompasses epistemic reflexivity, which in turn includes endogenous reflexivity. The epistemic sort of reflexivity presupposes a strict division of subject and object, but it may not be possible in reality to enforce this distinction. For example a painter may include herself in the picture, and thus as a subject simultaneously turn herself into an object. "Put differently, endogenous reflexivity is wholly internal to the text…, epistemic reflexivity topicalises the author-text relationship, and transcendent reflexivity alludes to the social context surrounding both" (*ibid.*: 3).

In sum, Davis and Klaes believe that Sent displays a kind of endogenous reflexivity toward Sargent and avoids the self-defeating, epistemic type. She makes explicit her relation to her own text and to Sargent's, thereby becoming self-aware. Although this may not have overcome the problem, it at least achieved a second-best solution in that it could leave the reader to decide whether or not to accept or reject the findings. To an extent any act of evaluation involves asymmetry and perhaps this kind of reflexivity problem is not as damaging as it might at first seem. If knowledge is social, then it is up to neither the interpreter nor the author to decide on the final interpretation of the text, it is up to social individuals who read the text.

3.5 Reflexivity and modernity

The theory of modernity developed by the sociologists Ulrich Beck, Anthony Giddens and Scott Lash involves a different use of the term reflexivity. Aiming to overcome the sometimes sterile contest between modernism and postmodernism, Beck *et al* aim to portray a new way of thinking about modernity. The introduction to *Reflexive Modernisation* suggests that: "…the protracted debate about modernity versus postmodernity has become wearisome and like so many such debates in the end has produced rather little" (Beck *et al,* 1992).[18]

Despite his weariness Giddens's analysis of modernity responds to postmodern attempts to situate schools of thought in their historical and social mileux. A well-known charge levelled at postmodern approaches is that they, like some forms of reflexivity, can lead to relativism and ultimately nihilism – if knowledge has no independent foundations, fact becomes the same as opinion and nobody can say anything. Action becomes pointless. Giddens aims for a more sophisticated approach by arguing that modernity is historically dynamic rather than a fixed entity that exists for all time; it follows that progress and knowledge are possible and that human action can change our conditions of existence. The scientific disciplines that retain old ideas about modernity are neither utterly mistaken nor completely correct. Rather, they should adapt constantly as modernity evolves. This implies that existing economic tools should be selectively reassessed and modified. Giddens's idea of structuration (Giddens, 1984), for which he is perhaps best-known, disputes the notion of agency and structure as unchanging opposites, and instead sees the one as being constituted within the other. Structure is a process, rather than a substance, and agency both conditions and is affected by structuration.

Another advantage of Giddens's schema is that it operates dialectically. Postmodernism is faced with the problem that it has argued against normative programmes for understanding human existence and therefore cannot suggest that anything comes 'after' modernity. But if nothing transcends modernity, then why

[18] This statement actually contradicts the subject of the book because Beck *et al* obviously believe that the debate has produced a new way of looking at modernity – reflexive modernisation.

should we believe postmodernism? As Sheila Dow suggests, it is better to think of postmodernism as the antithesis to modernism's thesis (Cullenberg *et al.,* 2001: 61). Both categories are being eroded by similar processes and will lead to a new synthesis. The concept of reflexive modernisation is pitched as a sociological contribution to that synthesis.

In *The Consequences of Modernity* (1990) Giddens starts from the premise that modernity has been wrongly understood as a fixed period of history with a uniform character. An analysis of the ruptures and dynamism of the process is missing. Even conceptions of history such as Marxist historical materialism, which emphasised discontinuity and change, saw history as an evolutionary process that puts contemporary human society at an advanced stage. Giddens disputes this evolutionism:

> Modernity, as everyone living in the closing years of the twentieth century can see, is a double-edged phenomenon. The development of the modern social institutions and their worldwide spread have created vastly greater opportunities for human beings… But modernity also has a sombre side, which has become very apparent in the present century (Giddens, 1990: 7).

The sombre side, in Giddens's view, consists of the spread of degrading labour practices, the development of mass political control and the industrialisation of military power. The view of modernity as leading to a benign outcome is therefore mistaken, but rather than adopt the view that history goes nowhere and that the creations of modernity are all dire, Giddens wanted to develop an analysis that accommodates the double-edged character of modernity by focusing on institutions and emphasising the role of human agency. In arguing that in late modernity we are faced with a dynamic opportunity to shape our economic and social environment for the better, there is an echo of Mannheim's mention of: "the ascent of human beings from mere pawns of history to the stature of men" (Mannheim, op. cit.: 82). Giddens believes that the notion of reflexivity is one of the key drivers of this dynamic conception of modernity.

Giddens accepts the Marxist and Mannheimian use of the term reflexivity to mean that the discoveries of social science cannot just be applied to a static subject matter but must be refracted through the self-knowledge of social agents. However Giddens goes further, pointing out that the social sciences create concepts using everyday knowledge, but that these concepts themselves are subsequently used in everyday life.

> Concepts like 'capital', 'markets', 'industry' and many others, in their modern senses were elaborated as part of the early development of economics as a distinct discipline in the eighteenth and early nineteenth centuries. These concepts, and empirical conclusions linked to them, were formulated in order to analyse changes involved in the emergence of modern institutions. But… they have become integral to what "modern economic life" actually is and inseparable from it (Giddens, op. cit.: 41).

Humans relate reflexively to the concepts/institutions created by human society. This reflexive process leads to a degree of obfuscation, and it precludes the positivist view that social theory (and therefore economics) gradually accumulates knowledge about the world, but it also permits a continual arranging and rearranging of social relations as new knowledge emerges. Giddens proposes a picture in which we are at one and the same time able to influence and understand our collective destiny but are also subject to self-created, but unpredictable, risk and uncertainty. Reflexivity consists in institutions of enlightenment thinking – including some of the tools developed by economics – reacting back on modernity and in turn shaping that process. Modernity is a dynamic process rather than an inert period of history.

Giddens suggests that: "There is a fundamental sense in which reflexivity is a defining characteristic of all human action. All human beings routinely 'keep in touch' with the grounds of what they do as an integral element of doing it." (*ibid.*: 36) But in modernity reflexivity assumes greater importance – it becomes intrinsic to the process of modernisation. Tradition, meaning routinised ways of acting and thinking, can no longer be defended for its own sake because we are compelled to reconsider the way we behave. Institutions and the way the world is perceived are constantly open to re-evaluation. It is important to contrast this role for human action with simple modernisation where reason appeared to replace dogma with a sense of certainty. Instead scientific knowledge, which is achieved through reason, is periodically revised and open to uncertainty. As Giddens (1994) points out, even Karl Popper said that all science is founded on shifting sands.

Giddens shows in *Reflexive Modernisation* how social reflexivity forces the pace of manufactured uncertainty on an individual level (Beck *et al*, op. cit.). His conception complements other, more philosophical discussions of the debate between modernity and postmodernity because it focuses on what real people do at a concrete level. Both postmodern and modernist approaches tend to operate at a high level of abstraction, far removed from practical behaviour. Some currents within postmodernism question the notion of the modern 'individual' (for example Foucault, 1980) and suggest that agency is a product of social forces acted out within certain group structures. Many modernist approaches have such a fixed notion of individuality that they preclude unpredictable behaviour.

For Giddens individuals act in ways peculiar to a specific social and historical period. Today, individuals are compelled to act on an array of information hailing not just from within the locality, not only from inside the nation, but from all around the world. This information must be screened, arranged and the important pieces picked out, resulting in a widening of 'intelligence'. Knowledge is no longer available only to a privileged caste of ivory-tower intellectuals, it is understood, used and shaped by increasing numbers of people.

This opening up of knowledge means that it is difficult to conceive of the human agent in a fixed, reified way, and instead human behaviour is rendered more unpredictable but at the same time choice becomes widespread. Institutions and tools initially created by humans with the intention of asserting more control are now reacting back unpredictably on society, leading to unintended effects.

The vision of reflexive modernisation is summed up with the metaphor of a juggernaut which collectively we can control at times but which threatens to run off the road. "The juggernaut crushes those who resist it, and while it sometimes seems to have a steady path, there are times when it veers away erratically in directions we cannot foresee" (*ibid.*: 139). Giddens thus prefers to talk not of postmodernism, with its connotations of nihilism and despair, but of radicalised or high modernity. The latter terms suggest that we live in modernity but that our view of modernity should change to accommodate reflexivity. The concept of reflexive modernisation revives the role of collective human agency because it refutes the teleological and evolutionist views of history and therefore is not deterministic. It arguably places yet more emphasis on human agency by disputing the concretised, modernist, theoretical view of the human agent as entirely free to exercise its subjective powers.

3.6 Conclusion

The concept of reflexivity has been used in many different ways. It is difficult to compare some uses of the term, and any attempt at grouping them together too closely would lead to misrepresentation. Although there has not been an unbroken, linear progression in the use of the term, the idea has travelled a long way from its early 20^{th}-century manifestation, and a number of different and incommensurate reflexivities can be identified. Marx never used the word and the Marxist usage of reflexivity only developed during subsequent discussion. Mannheim's project concentrated on epistemology; for anthropologists, the emphasis was more on practical method. Bourdieu tried to extend the reflexive method to other areas of social science, whilst he opposed the self-orientated approach of earlier thinking that considered itself reflexive. For SSK reflexivity was a problem rather than a solution, although not, it has been suggested, an insurmountable one. Whereas reflexivity is a side-issue for some analyses, Giddens's project is perhaps the most ambitious, aiming at a new theory of modernity for which reflexivity is a central feature. To relate the discussion to chapter 2, in critical realism the idea of reflexivity is not a key concern, although the Marxian origins of the particular notion of social ontology can be seen. It is also clear that the extreme postmodern vision of ideas as entirely socially-contingent is as far from transcendental realism as it is from Giddens and Bourdieu.

Yet at the risk of simplification, it has been implied here that certain characteristics unite most uses of the term, from Marx, Mannheim, anthropology, Bourdieu and the science studies literature, to Giddens.[19] All uses of the term derive in part from the Marxist recognition that ideas are generated within a certain class or socio-economic position. All involve a social conception of the human agent, one for which self-awareness is an important part of human activity. According to each version, by pointing out the social nature of thought and therefore the possibility of a plurality of ways of thinking, it is necessary to perform self-analysis. Most definitions allow for the possibility of progress in human history, although there is no inevitability about this progress, unlike the more deterministic interpretations of Marx.

Lawson's social ontology, which sees intentional human activity as the meeting point of structure and agency, plainly has a Marxist heritage and therefore holds features in common with Bourdieu's attempt to look for a middle way beyond the problems of objectivity and subjectivity. Both Bourdieu and Giddens look for a way of 'transcending' the objectivist/ subjectivist distinction and indeed appear sceptical about dualism in general, a suspicion they share with Dow (1990). Bourdieu's discussion of reflexivity has perhaps the most relevance for the methodology of development economics because it deals with methodological issues in anthropology and because he expresses particular views about mainstream economics.

One of the implications for economics is that because there can be no final word on the object of examination, and because the social context in which knowledge is attained is constantly changing, economists must remain open to the

[19] For a comparative discussion of Bourdieu and Giddens see Callinicos (1999).

possibility that the way they look at the world may need to be revised. For all the versions of reflexivity portrayed here, social science, including economics, appears likely to be a dynamic process of enquiry rather than a static set of tools.

Chapter 4 attempts to apply some of the themes from this chapter to the contemporary practice of economic development, in particular the Washington Consensus and its revised version. The central part of the chapter is the four-point taxonomy of reflexive development practice, which draws together some of the insights of the discussion until now and which is examined in the context of the case-studies in chapters 6 and 7.

4. REFLEXIVITY AND DEVELOPMENT ECONOMICS

4.1 Introduction

Acknowledging the argument that theory and practice are inter-related, this chapter aims to apply some of the ideas of reflexivity to development economics, and in particular to the dominant mode of development practice of the last two decades. The policies of the Washington and 'Post'-Washington Consensus have been the subject of much debate. Their underlying methodology has received relatively little attention despite the wealth of literature on methodology that has emerged over the same time period.[20] A methodological dimension helps discern why particular schools of thought achieved prominence, as well as why certain policies were recommended rather than others.

The Consensus has a distinctive modernist methodological character. John Williamson, who coined the phrase, suggests that it has absolute truth and that its veracity cannot be challenged. Even with the amendments proposed by Joseph Stiglitz in the 1990s, advocates consider it to apply universally, irrespective of context. Economists in Washington can, given the correct data and targets, design specific policy programmes for developing countries. It is thus exactly the kind of modernist project with which social theorists have engaged critically over the past half-century or more, and the notion of reflexivity is therefore a useful theoretical framework within which to discuss it.

Methodological postmodernists (rather than those who identify postmodernity as a historical stage, such as Jameson, op. cit.) have been among the most vocal

[20] The two lengthy treatments of the methodology of development economics in the journals are the forthcoming (March 2007) issue of the Journal of Economic Methodology, where a version of this chapter is published, and the 1986 issue of World Development.

challengers to the kind of modernist methodological stance used in the Washington Consensus. Policy proposals, they suggest, are influenced heavily by the interests and social backdrop of those who design them, so a single specific set of policies cannot apply universally. Critics of essentialism, scientism, foundationalism and determinism charge that no fixed basis exists on which economic advice can be constructed, and that policy outcomes are difficult to predict. Instead, development practitioners should address the differences between countries and social experiences, focusing on the various forms of oppression that face men and women in the global south.[21]

The postmodern critique is valuable, but postmodernists, despite their protestations, remain vulnerable to the charges levelled in chapter 2. Many postmodernists appear reluctant to apply their ideas in practice, whilst the spectre of relativism refuses to fade. An opposition to the idea of historical progress is incompatible with the notion of development, limiting the use of postmodernism for the task at hand.

Bourdieu's approach to reflexivity, perhaps more than any of the versions of reflexivity discussed in the previous chapter, can contribute to development economics since it helps take into account subjective differences between societies but at the same time retains scope for generalist analysis. Bourdieu is, amongst other things, an anthropologist and therefore has insights about developing countries. He is also a methodological critic of mainstream economics.

The final section of the chapter, and the core of the thesis as a whole, outlines a taxonomy of reflexive development practice, which derives from the discussion in this and previous chapters. The taxonomy suggests that, acknowledging reflexivity, successful development practice and understanding of that practice would be

[21] The kind of development addressed here is the active promotion of economic or social well-being, rather than autonomous change.

informed by the following characteristics: a self-reflexive examination of values and norms; an assessment of the extent to which local context is important; a recognition that policies are fallible and can sometimes worsen the problems that they set out to solve; and the suggestion that theory and policy might be revised periodically as circumstances change.

4.2 The Washington Consensus and after

The Washington Consensus originated in the early 1980s but was coined as a popular phrase in 1989 by John Williamson, who outlined a universal, 'positive' set of economic policies to be adopted by all countries at all times. Although there is debate over the importance of Williamson's contribution and whether his position has changed over the years, it is clear that a framework was developed, relying on a distinctive methodological position, and which underlay the structural adjustment programmes carried out across the developing world throughout the 1980s and 1990s whereby the World Bank and IMF delivered loans conditional on the adoption of prescribed policies.[22]

Williamson (1993) suggests the phrase 'universal convergence' as an appropriate synonym, and overtly tries to define the policies advocated as being beyond debate. The universal convergence is simply good practice: "the sooner it wins general acceptance and can be removed from mainstream political debate, the

[22] According to Zack-Williams (2000: 4) 32 of the 45 sub-Saharan countries were involved in World Bank or IMF programmes by the end of the 1980s, while 12 Central American economies signed emergency agreements with the IMF between 1980 and 1988. For an assessment of the impact of structural adjustment on poverty, see Killick (1995), while Zuckerman *et al*. (1991) considers the social impact. Lensink (1996) provides a discussion of the African experience. Callaghy and Ravenhill (1993) highlights the global context in which African countries began structural adjustment.

better for all concerned… The proof may not be quite as conclusive as the proof that the Earth is not flat, but it is sufficiently well established as to give sensible people better things to do with their time than to challenge its veracity" (Williamson, 1993: 1330). Dissenters are described as "cranks" who ought to be indulged by the democratic process but whose views are to be disregarded when designing policy.

In his original (1990) article Williamson details 10 sets of policies which he believes most Washington policymakers of the day would accept. The list includes cutting budget deficits and public expenditure; lowering taxes; liberalising financial markets and the exchange rate; reducing import tariffs; abolishing barriers to foreign direct investment; privatisation; and fostering competition (Williamson, 2004-5: 196). He is clear that officials and analysts in that particular city at that particular time could pre-design a detailed economic programme for any country, irrespective of whether its politicians or officials are part of the consensus and whatever the country's circumstances. Williamson declares that his intention is not normative, or to promote his own desired policy mix, but to identify the cumulative accepted wisdom of development practice as expressed in the locale at that time. Economic growth comes first. Social development is seen as a secondary consequence.

Rodrik (2002a) suggests that the programme is neoliberal, although Williamson denies this in an attempt to claim political neutrality. In a series of subsequent articles (Williamson, 1990, 1999, 2000, 2002, 2003, 2004a, 2004b) Williamson makes minor amendments, acknowledging that certain sets of policies, such as trade liberalisation, might prove more controversial than his original article suggested. He also lists policies which lie outside the so-called consensus.

Williamson (2003) claims that the term was initially only intended to apply to Latin America, while he "never thought of the Washington Consensus as a policy manifesto, for it omitted a number of things that seemed to me important, most notably a concern for income distribution as well as for rapid growth" (Williamson, 2003: 1476). He also says that a further generation of reforms should concentrate on crisis-avoidance and institutional change, and that: "One blueprint will not be right for all countries" (*ibid.*: 1481). This stance constitutes a change of emphasis from his 1993 statement that proof of the Washington Consensus is almost akin to proof that the earth is not flat. To a certain extent it does not matter what Williamson himself meant, or whether he backtracked; the Washington Consensus undoubtedly became an agenda for global policy used by the World Bank and the IMF. Whether Williamson makes amendments or not, the initial list of 10 points became concretised in the 1990s as a policy agenda urging reduced government expenditure, current-account liberalisation and privatisation on most developing countries. This policy agenda has been discussed, with little reference to Williamson in, for example, Gore (2000) and Fine *et al*. (2003). My use of the term is based on this generally-accepted position. In any event, Williamson (2004-5) continues to defend most of the core features of the Washington Consensus as well as its universalist methodological standpoint.

A number of shortcomings had already been identified by the late 1990s, particularly because structural adjustment in practice was more radical than the theory behind the Washington Consensus. Joseph Stiglitz, then chief economist at the World Bank, initiated a revision (Stiglitz 1998a, 1998b). Prompted by a shift in perspective ranging from his neoclassical textbook (Stiglitz, 1993) to the more radical *Globalisation and its Discontents* (2002), World Bank staff were encouraged to rethink the presumed welfare benefits of the free market that had coloured policy for the last two decades, substituting the theoretical work that won Stiglitz a Nobel prize in 2001. Informational asymmetries between market participants and unavoidable transactions costs caused market failures. Institutions began to take a more prominent role, particularly in light of the experience of rapid privatisation in the Soviet Bloc and Eastern Europe. The concept of social capital was brought into the mainstream in order to deal with the non-economic nature of many dimensions of development. This 'post'-Washington Consensus adopted a more human face and used less free-market rhetoric, widening its aims beyond the merely material.

The augmented Washington Consensus is *less* universalistic. Yet it shares certain crucial characteristics with its predecessor. It retains the notion that in all economies, developing and developed, market equilibriation will bring about optimal outcomes. It assumes that outside intervention by centralised institutions using a roughly similar pattern is the best means of achieving better development outcomes. Above all, as Dani Rodrik points out: 'It is too insensitive to local context and needs' (Rodrik, 2002a:1). It still attempts to apply economic blueprints to developing countries and retains common features such as inflation targets, independent central banks and balanced budgets. Rodrik argues that even with institutional, poverty-orientated and social measures, it is 'infeasible, inappropriate and irrelevant' (ibid: 1). Some, such as Cammack (2002) suggest that there have been serious and avoidable consequences for poverty in developing countries.

Ha-Joon Chang shows that the ethos of the Washington Consensus reflects methodological changes inside the whole of development economics:

> …acquisition of knowledge of particular countries' economic structures, institutions, politics and socio-cultural factors that used to be regarded as a highly-valued – even essential – asset for development economists in the early days of the subject, was denounced as a waste of valuable

> training time. Indeed, many of those who hold the 'economics-as-a-universal-science' view would go a step further and argue that the possession of detailed knowledge about a country is a sign of intellectual failure. In their view, it is a sign that the researcher has sought refuge in the intellectually 'soft' areas like languages and other social sciences because he/she was incapable of dealing with the 'hard' logical concepts required of rigorous economic analysis (Chang, 2003b: 5).

Adding caveats to the original Consensus has not altered its modernist methodological character. It focuses on those targets deemed important by its architects, who believe themselves to be catering for the interests of developing-country inhabitants. Because mainstream development policy remains wedded to the universalising inclinations of neoclassical economics, and its preference for abstraction and idealisation rather than specificity and nuance, it has not engaged with postmodernism as have other social sciences. This has been at the expense of practical policy. As Fine *et al*. (2003: xx) point out, "the post-Washington Consensus remains remarkably remote as far as policy stances in Africa, Eastern Europe and elsewhere are concerned. The dissonance between rhetoric and practice has already been felt within the World Bank with the resignatio[n] of Joseph Stiglitz..."

4.3 The modernism of the Washington Consensus

The Washington Consensus and the post-Washington Consensus encourage rational, material progress toward a single human goal – wellbeing – using principles that differ little according to context. It can be seen that it conforms in some degree to most of the 'isms' of modernism discussed in chapter 2. The approach propagated by the Washington Consensus is essentialist in that it suggests that there is a hidden level of reality which can be, or already has been, discovered using the tools of economics. All economies possess an 'essence' which exists independently of local knowledge or the tools used to describe or analyse the economy.

A critic of essentialism might charge that the predominantly formal and Western methods of the IMF, World Bank and regional Development Banks that carry out the Washington Consensus, rather than 'revealing' any hidden layer of reality, discover only what they are looking for. If, as social constructivists argue, knowledge is socially generated both by the outside agency and by the local inhabitant, a more complete understanding would be achieved using a variety of methods, such as the adoption of local traditional knowledge or the immersion of development economists in local culture. As Rodrik suggests, 'post'-Washington Consensus attempts to achieve a more human face have amounted to little more than window-dressing; the context-immune core of the consensus remains intact.

A second dimension of the Washington Consensus's modernism is its foundationalism, the view that there is one basis to reality irrespective of how it is discussed. Economic knowledge and policy prescription can be built upon a secure knowledge-base, in the Cartesian sense which claimed to have distilled the basic nature of reality through enquiry. A policy such as the "provision of secure property rights", for example, is based on the 'stylised fact' that all economic actors are individually-motivated and respond to the incentive of property ownership by working and consuming more.

Postmodernists might charge that there is no fixed foundation to knowledge about human behaviour, and that those who claim to have discovered it are only reflecting their own rhetorical position. Foucauldian analyses of development such as Ferguson's (1990) *The Anti-Politics Machine* emphasise the role of power relations in reinforcing what are seen as development 'problems'. Such arguments, as well as others within the broad postmodernist tradition, imply that economic actors in many developing countries cannot be assumed to be self-orientated or as materially-motivated as those in other countries, and that other, collectivist, spiritual, cultural or environmental ends might take precedence.

A strong strain of scientism permeates Williamson's discussion and that of most proponents of Washington Consensus-type views of development from Lal (2000) through to Fischer (2003), and Lucas (2003). The privileging of a specific type of scientific practice and the exclusion of other methods is a consequence of the essentialism and foundationalism described above. If there is only one reality and context is unimportant then development economists become impartial scientists dispensing advice from an objective standpoint, much as laboratory technicians inject an enzyme into a rat in order to make it grow faster.

Many postmodern approaches would emphasise non-formal methods in order to tailor analysis to the local situation. Critics of the teleological view of science might charge that there is no inherent superiority in a perspective on development that happened to predominate at the end of the 20th century. Rather than reflecting a 'universal consensus' the dominant policy ideas reflect the material interests which influence the thinking of the Bank and Fund. Stiglitz (2002), for example, argues that Wall Street representatives of financial capital influenced the IMF into bailing out countries that owed them money.

The methodology of the Washington Consensus appears to assume a somewhat deterministic relationship between policies and development outcomes. In contrast to the Babylonian or critical realist argument that interaction between elements within a system cannot be reduced to timeless laws, the neoclassical underpinnings of the Washington Consensus result in the belief that outcomes will be relatively predictable – and therefore few alternatives are considered. For instance the financial programming model, the main tool of the IMF during the 1980s and 1990s[23], emphasised the restriction of domestic credit in the belief that this would usually address balance of payments problems. Fiscal policy was considered less important, even in economies where balance of payments problems were not due to excessive domestic credit-creation. The shortcomings of this approach, and the unpredictability of outcomes, was starkly illustrated during the Asian financial crisis, particularly in South Korea where IMF-inspired monetary austerity turned a short-term liquidity problem into a real economic crisis.

Whilst the Washington Consensus and its successor are held true deterministically for most countries at most times, there are many instances where they have proven counterproductive, throwing doubt upon the determinism in their methodology. Arch-modernism underlies the Consensus and its amended version,

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[23] The IMF saw the creation of excess domestic credit as the key explanation of balance of payments problems. The following set of equations is known as the financial programming or Polak model (Killick, 1995: 129; Easterly, 2006). R is the local-currency value of the net foreign assets of the banking system; M is the stock of money and D is domestic credit.

Money stock varies according to changes in the international and domestic money supply.

$$\Delta M = \Delta R + \Delta D \qquad (1)$$

Equilibrium in the money market means that changes in the demand for money equal changes in the supply of money.

$$\Delta M = \Delta M_d \qquad (2)$$

Money demand depends on changes in real income and prices. Real income is not affected by monetary variables.

$$\Delta M_d = f(\Delta Y, \Delta P) \qquad (3)$$

Combining equations (1) (2) and (3) shows that balance of payments deficits, in other words losses of reserves, are caused by increases in domestic credit over and above increases in demand for money.

$$\Delta R = \Delta M - \Delta D = f(\Delta Y, \Delta P) - \Delta D \qquad (4)$$

which have failed to take account of the abundance of social science literature criticising modernism. Proponents of the Consensus, or some revised variant of it, have continued to advocate development policies that assume away context, the randomness of causation, the role of chance, the indeterminacy of events and the changing role of causes and effects. To some the Washington Consensus may appear comparable with proof that the earth is round, but to others, most notably many recipients of the advice, it merely reflects the interests and perspectives of its proponents.

4.4 Postmodern alternatives

According to modernists, development issues as conceived by those in Washington can be tackled scientifically, based on a universal understanding of what is essential in economic behaviour. The Western development 'expert' can solve the problems of developing economies. Postmodern critics have focused particular attention on technical approaches, which they believe to be a product of modernism. Parpart (1995) shows that the notion of expertise is embedded in Enlightenment thought and the subsequent specialisation of knowledge. Certain strands of Enlightenment thinking involved the view that science can, through its trained practitioners, overcome the problems of the natural world: human society is no longer vulnerable to the will of God. A technical, expert-driven approach pervades mainstream economics, which has increasingly "turned inwards" (Klamer, 2002), excluding anyone who is not well-versed in its complex formal techniques.

Parpart addresses the issue of scientism by suggesting that the ‘problem’ of female poverty in the so-called third world is constructed by experts from the global North who often know little about the subjective experience of local inhabitants. Women are seen as helpless victims, subject to uniformly similar forces. Parpart approvingly draws attention to approaches which emphasise empowerment and diversity: “development theory and planning for women must exhibit greater sensitivity to difference and an awareness of the multiple oppressions – particularly race, class, ethnicity and gender – which define women’s lives in the South” (Parpart, 1995: 237).

While Parpart rightly questions the infallibility of Northern expertise, her postmodern approach suffers drawbacks. In arguing for the wholesale rejection of an economics-orientated approach in favour of ‘empowerment’ it is difficult to understand what is the purpose of promoting development. Focus groups, indigenous participation and sensitivity are all very well, but what should they actually *do,* apart from perhaps piecemeal local change? The postmodern emphasis on method rather than progress surely ignores what is implicit in the promotion of development – the implication that large-scale action must be taken to improve the situation of groups, whether on their terms or by the criteria of the outsider. It might be argued on philosophical or moral grounds that development is an inherently Western concept and should be rejected, but Parpart does not do so, and it should be noted that few postmodernists resort to such extremes.[24]

Other postmodern approaches to the Washington Consensus focus on the possibility of different kinds of development. The ‘Western’ truth is only one among many. Kanth (op. cit.) is critical not only of the Washington Consensus but of what he

[24] The moral grounds for the promotion of development is a large and important topic, which requires more space. It is assumed here that development is desirable.

terms ‘Euro-centred epistemologies’ in general, including mainstream economics. He suggests that ‘even if economic theory were true, and its ‘science’ valid, in some acceptable sense, *it would still only represent only one manner of interpreting the myriad facts of social life*’ (ibid.: 190, italics in original). According to this line of argument, mainstream economics leads to policy approaches which tend to impose foreign values on the object of study.

Escobar (1995) suggests that the imposition of foreign-led development, while not intentionally malicious, involves a top-down, technocratic approach which excludes the voices of its target audience. The type of approach offered by Escobar has been criticised for being too general – not all aid is top-down or technocratic – and being difficult to use as a plan for action. Some broadly postmodern authors try to go further. Parfitt (2002) proposes a ‘principle of least violence’ which is supposed to be a guide for overcoming the pernicious impacts of aid and other development efforts. Whilst the sociological bent of this argument means that it is heavy on analysis of the postmodern influence on development policy, again there is little practical or technical concern with change in the lives of ordinary people. Little practical advice is given beyond the idea that development should involve the ‘least violence’. Lee (1994) highlights the irony that whilst developed-world culture is engaged in a questioning of modernist precepts, most developing countries forge ahead with a modernist agenda. He argues that the postcolonial world is characterised by different patterns of economic and cultural development. We should not think of development as a linear process.

John Maynard Keynes showed signs of pre-empting some of the contemporary criticisms of the modernism of the Washington Consensus. Klaes (2006) shows that as a member of the Bloomsbury group Keynes had a well thought-out relation to modernism, which may be thought of in terms of immanent critique. Klaes regards McCloskey (2001) and Klamer (1995) as allowing that Keynes might be a postmodernist. He is not, because as Skidelsky shows, his life's work was dedicated to the modernist project of showing how economic science could advance the human condition. In *The Economic Consequences of the Peace*, written when Keynes had most contact with Bloomsbury, "Keynes asserted not only his own claim to attention but the claim of economic science to shape the future. The princes of the old world had left a dreadful mess; it was the task of the scientists to clean it up" (Skidelsky, 2003: 249). Further, Keynes permitted the notion that agents might act as if they were certain about future economic outcomes, even if they were not: "…the necessity for action and for decision compels us as practical men to do our best to overlook this awkward fact [of uncertainty] and to behave exactly as we should if we had behind us a good Benthamite calculation of a series of prospective advantages and disadvantages, each multiplied by its appropriate probability, waiting to be summed" (Keynes, 1973: 114).

Yet it is possible to identify non-modernist traits in Keynes's thought. Ruccio and Amariglio (2003) argue that Keynes's notions of uncertainty and probability represent postmodern moments. Keynes can be seen to emphasise in both his early work on probability and in his later economic writings the impossibility of certain knowledge and the centrality of uncertainty. This contrasts with the neoclassical treatment of probability and uncertainty, which assigns probabilities to future events. For Keynes, such calculation is not the only way of arriving at probabilities. Other means can be used, such as intuition.

This position has postmodern hallmarks firstly because it shows that economists, like other people, can face limits to their knowledge. Certain things are simply unknowable, and the knowledge of the 'expert' economist may be no better than that of the economic agent (Amariglio and Ruccio, 1993: 341-342). Second, it suggests that people cannot always act according to rational motivation; "animal spirits" may be responsible. This contradicts the modernist idea that action is exclusively based on rational activity which originates in the mind. Third, it undermines traditionally modernist economic concepts, like equilibrium, which are associated with certainty, accuracy and numerical precision (Ruccio and Amariglio, op. cit.: 71-73). Instead, 'whim or sentiment or chance' may sometimes motivate economic action.

Uncertainty is not relevant only to Keynes's theory of interest. The existence of uncertainty and a lack of scope for rationality relate to the theory of effective demand and the need for intervention in order to bring the economy back to full employment. If economic agents cannot know about the future with certainty, and still further if these uncertain agents act together in such a way that may lead to economically undesirable outcomes, it may make sense for government to intervene to bring about a more useful economic situation. Likewise Keynes's ideas about Bretton Woods were intended to insure against uncertainty about the future, as well as to help engineer global economic prosperity. As his first biographer Roy Harrod points out, Keynes "…disliked reverting to the law of the jungle. His instincts were for international cooperation" (Harrod, 1972: 621). The centrality of uncertainty to this system and the resulting need for co-ordination from non-market agencies can be contrasted with the modernist standpoint of the Washington consensus, where the belief that economic systems operate deterministically and that future economic outcomes can be calculated with some certainty mean that the global economy is largely unregulated.

All this is not to suggest that Keynes was a postmodernist; simply that he engaged with modernist questions, and that it is significant that he did so long before the emergence of the Washington Consensus, and before modernist economics became dominant. The different role of rationality in Keynesian economics and the resulting difficulties with predicting the future undermine the self-confidence of modernist economics. Similarly the case of Keynes shows is not necessary to resort wholesale to the extremes of postmodernism.

Acknowledging Keynes's comments, it is possible to see that development 'experts' may have little more (and perhaps less) knowledge about the economy than local economic agents or policymakers. Yet outsiders tend to bring useful external detachment, which may complement the situatedness of local economic agents. Given this situation, ceding control over economic policy decisions to local people in development situations helps overcome the problem of uncertainty. The more devolved are economic policy choices, the less likely they are to succumb to the problems associated with essentialism. A more pluralistic development policy spectrum, which permits a multitude of approaches and economic relationships, is likely to be less deterministic. Similarly it is unlikely that economic reform programmes can predict outcomes with the confidence assumed under the Washington Consensus. Instead, it is worth bearing in mind that people sometimes act according to whim or animal spirits.

Rather than abandon economics altogether for an entirely particularist approach which avoids active policy, a better solution may be to reform the practices of the development economist so that he or she becomes more aware of diversity and the multiplicity of experiences in the global South. Both modernist and postmodernist economic approaches tend to show scepticism about intervention in human affairs; the postmodernist because she expresses scepticism about 'grand theory', the modernist because he believes that reducing government intervention in markets will progressively increase wealth. Surely a middle ground is possible, which retains economic intervention, but tempered by the recognition that intervention can take radically different forms, depending on context?

4.5 Why reflexivity matters

Bourdieu's epistemological project, which is perhaps the most useful for the job at hand, has important implications for contemporary development economics and for the methodological divide between modernism and postmodernism. His suggestion that the subjective and the objective cannot always be disentangled during analysis of other societies means that it is difficult actively to promote development without bringing in outside values or trying to identify abstract meanings. The entanglement of subjectivism and objectivism is not in itself a problem, it is simply an often-ignored reality which, unless it is acknowledged, can weaken the results of policy advice.

An example from development economics of the difficulty of separating the subjective from the objective concerns the issue of employment. In many developing countries, and most developed nations, paid employment is considered a necessity for survival. In neoclassical terms this might be dealt with in some function of the form $Y = f(K, L)$ or $Y = f(AK, L)$, etc, where Y is income, K capital and L labour. Labour, paid its marginal product, combined with capital (perhaps augmented by technology, A), produces income.

It is well known that cash employment is either peripheral or non-existent in a number of traditional societies. Paid work can be sporadic, temporary or part-time, and unpaid work is often a matter of survival. Outsiders seeking an objective analysis tend to use conventional categories in order to generalise. This ignores the problem that people may value ends other than income, or that labour often cannot be distinguished from leisure, or capital from technology. In other words it is difficult to represent labour as just L, or technology as A, or capital as K. These categories have local subjective meaning that it is difficult for the outsider to comprehend. Not only do traditional societies treat labour differently; all societies may have slightly different ways of approaching work. Adopting what is imagined to be an objective approach may be inappropriate anywhere. To homogenise income, capital or labour such that they can be represented as a letter is legitimate as a heuristic technique aimed at highlighting an abstract relation, but when applied to policy it may not fully capture local subjective meaning and therefore might not produce convincing explanation.

It might be argued that objectivism is not necessarily a quality of the outsider, in this case the international financial institution. According to this line of thinking the World Bank or IMF might merely portray its own, subjective viewpoint and it is wrong to talk of a dualism between the outsider-objectivist and the insider-subjectivist. Users of the Washington Consensus are at pains to portray their approach as scientific and relevant to any situation. Attempts by the international financial institutions to harness subjective knowledge have often made little practical difference to policy and have conflicted with the overall universalist approach. The Consensus's self-identification as objectivist is good reason at least provisionally to consider it part of this category.

A more pertinent apparent objection is that the 'insider' – the inhabitant of a developing country – is perfectly capable of accumulating objective knowledge. Much post-colonialist literature has sought to overturn the idea that only foreigners can be objective. Increasing access to education, travel and the recruitment of developing country nationals into international institutions have broken down the racist notion that it is impossible for non-Europeans to have a worldview that extended beyond their immediate horizons. This point is not really an objection. The notion of reflexivity derived from Bourdieu aims exactly for a reconciliation of the objective with the subjective. In development this implies further assimilating developing countries into development theory and practice, which means that developing-country nationals, in conjunction with those of other nations, should run the global development organisations.

Critics might object that drawing attention to the gap between the objective and the subjective drives a further wedge between developed-country inhabitants and their developing-country counterparts. According to this argument development is a common enterprise and participants should collaborate on equal terms irrespective of their origins. It is impossible, for practical policy purposes, to draw a distinction between objectivity and subjectivity, so the status quo should remain. But arguing that development is a common endeavour obscures the reality that the wealthy nations finance and control the major global development institutions, that they are run by developed-country nationals[25] and that they are staffed mostly by those trained in the developed world. Although to some observers the development institutions may appear to work in harmonious collaboration with developing countries, developed nations, like anywhere, hold their own interests uppermost. Bourdieu's aim, to repeat,

[25] The IMF is traditionally run by a European; the World Bank by an American.

is to propose a method with which to reconcile the benefits of the objective and the subjective, and to make theory more practical. The reality is the reverse of what this apparent objection supposes. Ignoring reflexivity allows the gap between the advice of the global development institutions and the needs of developing countries to persist.

Highlighting the continuity between subjectivity and objectivity underlines the importance of policy ownership. The fact that outside institutions find it difficult to understand other forms of knowledge means that it is important to cede ownership of any economic transition to local authorities and to local people. Moulding subjective reality into any plan for economic development better fits economic policy with reality.

But there must *be* policies to manipulate. Policy space is crucial in ensuring that the promotion of development fits with national priorities. Chang (2005) points out that the major international finance institutions have an increasing influence on national government priorities, particularly trade and industrial policy. A form of 'mission creep' has meant that the World Bank, IMF and WTO now push for specific targets such as independent central banks, inflation targets and a binding agreement to reduce non-agricultural tariffs toward zero. All of these trends are more than just changes in policy; they are changes in the way that policy can be formulated and they deprive government of policy autonomy. Although discussion at UNCTAD XI, the organisation's biennial conference held in Sao Paulo in 2004, centred around the concept of policy space, the concept has yet to be applied. The WTO around the same time began to talk of 'Collective Preferences', in other words national values that trade negotiations should not compromise (Lamy, 2004). The Ministerial meetings in Cancun in 2003 and Hong Kong in 2005 involved little practical use of this concept.

Given the subsequent moves at the WTO towards further market opening by developing countries, the discussion has amounted to little. When international institutions deny that choices exist, and portray the Washington Consensus as akin to "proof that the earth is not flat", accompanying advice with large loans, many developing countries are persuaded that there is, in fact, no choice. Policy autonomy is reduced by the denial that it exists.

It might be suggested that developing countries benefit from a reduction in policy space. The main idea is that governments engage in a 'race to the bottom', during which they reduce their remit in an effort to improve market confidence and to attract trade and capital. Ideal policies are considered to be minimal social insurance, flexible labour markets, deregulation, privatisation and restrictive monetary policy. This type of thinking is exemplified in Thomas Friedman's (1999) 'Golden Straitjacket' argument:

> As your country puts on the Golden Straitjacket, two things tend to happen: your economy grows and your politics shrinks… [The] Golden Straitjacket narrows the political and economic policy choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling and opposition parties in those countries that have put on the Golden Straitjacket. Once our country puts on the Golden Straitjacket, its political choices get reduced to Pepsi or Coke– to slight nuances of tastes, slight nuances of policy, slight alterations in design to account for local traditions, some loosening here or there, but never any major deviation from the core golden rules. (Friedman, 1999: 87).

Closer examination of various development success stories – from the East Asian Tigers to contemporary China – reveals a wide variety of policy options. Democratic Taiwan is the site of fierce political debate over economic policy. South Korea, which only passed a law fully permitting foreign investment in 1998, routinely violated Friedman's 'golden rules' during its development, and many consider the country to be one of the most successful examples of economic development in history (see, for example, Wade, 1990). China's state-owned enterprises, fixed exchange rate and capital controls suggest that rapid economic growth can occur without full liberalisation. Malaysia's capital controls and currency peg appear at best to have helped stave off further financial-market volatility in 1998, and at least did no harm.

Rodrik (2002b) has pointed out that a number of countries, such as Argentina in the 1990s, have engaged in a 'race to the bottom' with disastrous results. Whilst the Argentinean president and finance minister aimed first and foremost to satisfy international investors, eventually this policy became unsustainable because it was wreaking social harm. Markets anticipated the popular backlash, prompting a fresh exodus of capital, and the ministers were forced to resign. Rodrik's point is that in democracies, politics can be the deciding factor in determining international investment confidence: "When push comes to shove, democracy shoves the Golden Straitjacket aside" (*ibid.*: 15).

4.6 A taxonomy of reflexive development practice

The aim here is not primarily to criticise the content of the Washington Consensus (although there is empirical evidence to show that it fell short of its own objectives) or to provide alternative policy recommendations, which has been done elsewhere from various theoretical perspectives, by amongst others Stiglitz (op.cit.), Rodrik (op.cit.), Fine *et al* (2003), Held (2004) and Davidson (2004-5). The purpose here is to suggest that an exclusively modernist approach led to policies which might have been inappropriate to certain countries, and to show that a methodological position which explicitly tried to overcome the problems of modernism and postmodernism might hold benefits. An advantage of discussing the methodological framework is that it ameliorates controversy over political bias and narrows the debate over method.

'Going beyond' two perceived opposites, whatever they are, involves the danger of a rhetoric that ends up with the same misguided objectivism discussed above. If the impression is given that the opposite poles are the only two available and that the new resolution is unique, then the synthesis can be falsely accorded a higher truth status than its predecessors. In reality, though, a number of resolutions to polar opposites are usually possible, and the content of the resolution depends on what the poles are and how they are described. Although a dialectical analysis of modernism and postmodernism in the Washington Consensus *helps,* the risk remains of giving too much legitimacy to the result. The kind of synthetic policies arising out of the engagement of modernism with postmodernism are not appealing simply by virtue of eclecticism. Policies must have advantages over their predecessors and have real-world applicability rather than forming a new, fixed, theoretical dogma. With careful analysis, it should be possible to build the methodological foundations for the kind of theoretical approach that interacts with the real world. Engagement with the real world becomes the touchstone of theoretical validity rather than dialectical reconciliation. This recognition frames the discussion in the following section, which outlines a possible methodological framework for a reflexive development process. The taxonomy is aimed at economic development theoreticians, practitioners in the global institutions, and national policymakers.

Acknowledging reflexivity, successful development practice and understanding of that practice would be informed by the following five characteristics:

4.6.1 An examination of the influence of external values and norms. Partly, the idea of being reflexive simply means having an open mind and looking at your own project, as suggested in the writings of Bourdieu and other theorists of reflexivity. Being socially reflexive at an institutional level would require that the agents of a development process ask to what extent 'grand theory' is useful, distinguishing between objective advice and what is simply a reflection of interests or a projection of a different worldview. To this extent, the ideas of those in the postmodern tradition, such as Foucault (op. cit.) and Lyotard (op. cit.) are difficult to ignore. Yet extreme interpretations of such arguments go too far in dismissing the idea of *any* universals. In trying to dismiss grand theory, it is easy to end up back with the same level of abstraction and idealisation that was the object of criticism in the first place. One of the values of realist approaches such as that of Lawson (op. cit.) is that they recognise that abstraction is necessary, whilst arguing for the grounding of theory in practical reality. By looking at the practical, nitty-gritty reality of development, it is possible to see that certain objective universals hold true.

The kind of objectivist or universal input that is valuable usually aims to empower national policymakers to achieve national goals, often using lessons learnt from other countries. This might mean enlisting international assistance to improve statistics to a basic level and teaching government officials how to understand them; technical advice aimed at enabling participation in, or rejection of, international trade agreements; assistance with public finance; or help with the design of nationally-driven macroeconomic policy. Examples of this kind of approach include the largely self-determined economic adjustment processes of Singapore (discussed in chapter 7) and Malaysia, which drew on outside support in the form of the technical know-how of foreign companies or international agencies.

The desirability of an outside approach highlights the reality that development is a common human endeavour; and to that extent the postmodern questioning of *all* universals and *all* essentialism is misplaced. If development is desirable at all, it is a process that involves certain universals such as basic essentials including food and water, housing, education and health. For all its shortcomings the Millennium Development Goals approach[26] acknowledges that total national autonomy is unlikely to produce the required results, and that a 'global partnership for development' is required. Sharing the analysis of development in a number of countries builds

[26] The Millennium Development Goals are: Eradicate extreme poverty and hunger; Achieve universal primary education; Promote gender equality and empower women; Reduce child mortality; Improve maternal health; Combat HIV/AIDS; Ensure environmental sustainability; Develop a global partnership for development.

up expertise and economies of scale in knowledge. Using an outside agency can shift the blame for unpopular decisions away from national policymakers. Countries may not have the skills required for rapid development, importing administrative and technological know-how.

Values and norms do not spring from a vacuum. Pressure from vested interests and social influences can prompt international institutions to favour certain policies (Bøås and McNeil, 2004). For instance the IMF policy of providing large loans to Russia during the late 1990s was influenced by the desire of US financiers for an exit strategy (for example see Wedel, 1998; Stiglitz, 2002). Financial incentives such as loans can make it difficult to question accompanying conditionalities. Often, countries have had reform packages thrust upon them unnecessarily. To this extent it is important to examine whether reform is necessary at all.

The existence of material compulsions toward certain policy conclusions make it unrealistic to expect all development institutions to perform a regular and unlimited assessment of values and norms. But perhaps the influence of material influences such as the desire of US financiers for an exit strategy makes it all the more important for development practitioners to be self-reflexive. Some attempt to examine values and norms is always possible, and the process highlights the reality that Washington Consensus-type policies are not compelled by global forces, but are open to choice.

Bourdieu and others (from Kuhn, op. cit. to Woolgar, op.cit.) show that science is affected, like every other activity, by social interests and undeclared predispositions. It is difficult to establish independent criteria from which to assess scientific knowledge, and highlighting the institutional backdrop of scientific enquiries makes it possible to contextualise scientific claims. Economists and policymakers are subject to social influences. For example the exclusive environment of early 20th-Century Cambridge may partly explain Keynes's elitist political views. This contextualisation applies to all within the development chain, from theorists, to those who devise policy, to practitioners and civil servants.

Exposing social or economic context does not automatically disprove the resulting ideas. The IMF worldview might have cogency whatever the material compulsion underlying it, and it is best challenged through argument and counter-evidence rather than only, for example, by revealing hidden interests. Room always exists for manoeuvre away from apparent economic interests, and a range of theories could be chosen as a result of one ideological position. For example the IMF financial programming model remained in widespread use for at least a decade after monetarism fell out of favour in the domestic policy context (Killick, 1995). The persistence of the model was a result not just of ideology, but of a modernist approach that believed that the answer to developing countries' problems had already been found, and that success lay in more focused application of the model.

Even if the link is not deterministic, context can help explain why people tend toward certain general theoretical influences rather than others. For example it is unlikely, given their location, training and close relation with US financial capital (described in Stiglitz 2002) that IMF economists would advocate socialisation of the means of production. Exposing social or economic interests can also help shed light on how appropriate policies are for certain value-systems or contexts. Applying a foreign approach which is not self-reflexive can result in the prioritisation of ends which may be inappropriate to the local situation. For instance short-term contractors – often the main agents of structural adjustment – do not have the opportunity to learn about important customs and culture. They may impose inappropriate foreign values and beliefs on economic policy proposals.

4.6.2 An implicit assessment of the extent to which local context is important.

Together with point 4.6.1 this corresponds with the discussion of objectivity and subjectivity. If the existence of reflexivity is acknowledged, the process of self-scrutiny suggested by Bourdieu requires questioning the importance of local context as well as external values and norms. Economics can learn from the bottom-up approach of anthropology. Its aim is a detailed description of a culture rather than to squeeze the facts into an externally-created model. It is perhaps no surprise that the discipline of anthropology was one of the first to deal with the question of how researchers' values affect their output. Context, in this sense, becomes all-important. Most criticisms of the Washington Consensus revolve around its lack of attention to context, which matters for at least three interconnected reasons:

(a) People in different societies might behave in different ways. Economic theory must involve certain generalisations about human behaviour, and exaggerating behavioural differences tends to obscure the role of policy. But social context creates important behavioural variations which in turn have implications for relations assumed in traditional models. For example some explanations of East Asian economic success highlight the importance of the work ethic and a desire to provide for subsequent generations. Although there are other, more important explanations for the East Asian boom, this idea relates to recent attempts to understand consumption and saving. A lack of appreciation of differences in economic behaviour partly explains why during the Asian financial crisis the IMF vastly over-estimated the threat of inflation, prescribing restrictive monetary and fiscal policies. The IMF also misunderstood the extent to which economic actors within a developmental state act against what might appear to be their own immediate interests for the benefit of the common good.

(b) Values might vary. As subjectivists would argue, values underlie theory even when it is couched in technical language. Not all inhabitants of developing countries aspire to the same goals as those within developed nations: Washington policymakers have different ideals to South Pacific subsistence farmers. John Maynard Keynes (1921), among others, has shown that the framework of utility maximisation is insufficient to accommodate wide variations in values. Many people are not utility-maximisers, while it can be difficult to assign numerical probabilities to future events. A basic standard of living is probably a universal goal, but beyond this it is difficult to generalise about the desire for more wealth. Sen (2001), for example, argues that development should be a process of securing basic freedoms rather than only the attainment of riches.

(c) Institutions might be different (Schmid, 2005). The economic anthropology literature (such as Billig, 2000; Hefner, 1990; Danby, 2002) shows that even an institution like the market is constructed, and that it works in different ways. In some subsistence communities, for instance, a relative lack of scarcity means that the profit motive is minimal, and where markets exist, prices are similar because competition can be seen as a social sleight on neighbours. Even institutions like private property and money can take various forms. When the necessary institutions do not exist for deep-rooted cultural reasons, they often cannot be implanted in a short space of time. Assessing the extent to which institutions differ from conventional assumptions requires a corresponding adjustment of policy. In countries with no commercial tradition, rapid privatisation can make little sense because there is no private sector to provide the service, and foreign companies are often reluctant to participate unless for a price that may not be worth paying.

These three features interact. Variations in values can cause behaviour that is unexpected from the outsider's point of view, while institutions may work differently because of diversity in behaviour or values. The importance of context underlines the need to build local ownership in to development experience. This means more than just consultation meetings or seeking consent from politicians: such processes can be manipulated or misunderstood. The country must itself be in charge of choosing and adapting theory, deciding what kinds of policies it wants and executing those policies, with the international institution in a supporting role.

4.6.3 A recognition that economic tools, concepts and policies can undermine themselves, even though they were designed for greater control. One of the main objections to modernist theories is their over-confidence. 'Grand narratives' claim to have created a system of thinking that is capable of explaining diverse events from central axioms or precepts. Given correct application of these axioms or precepts, using deduction, outcomes can be predicted with some degree of accuracy. Clearly the axioms need to be valid, but it is increasingly clear, moreover, that economic systems are open-ended and that some events are unpredictable. Even if they differ in important ways, the open systems approaches of critical realists, Keynesians and the neo-Austrians lend support to the broad tradition of reflexivity. In this sense, reflexivity means being modest about models and predictions.

If theory does not produce policies that have direct relevance to on-the-ground experience, these same policies can worsen the very problems that were identified in the first place. For example introducing Western notions of governance, with the introduction of powerful public service officials into close-knit, traditional societies, can institutionalise the very problems that they set out to solve. It may be better to use traditional methods of decision-making which deal with nepotism or corruption in consensual, devolved ways. Rigidly employing the same tools despite the existence of an ever-changing and differentiated reality can lead to a mismatch between policy and the economy, while policy in turn becomes part of that changing, open-ended reality. This is the kind of process that Giddens refers to when he discusses the concept of reflexive modernisation.

An important contribution is Paul Ormerod's argument in *Why Most Things Fail* (2005) and *The Death of Economics* (1994) that governments and businesses cannot possibly predict future outcomes with certainty because of the inherent randomness produced in economic systems. This kind of unpredictability is different to the Keynesian and critical realist notions of open systems discussed in chapter 2, because it refers to stochastic unpredictability and draws on chaos theory, rather than emphasising the impossibility of knowing certain economic outcomes. A complete picture of GDP, on Ormerod's argument, is impossible because too many elements exist, and they adopt varying degrees of importance at different times. Collecting and analysing more statistics will not solve the problem: "…even when we have all the data and all the information that exists in a particular context, uncertainty can still prevail" (Ormerod, 2005: 57). Ormerod probably goes too far in his scepticism about government policy, failing to recognise that reducing the size of government, especially in small developing economies, can often worsen uncertainty. Market failures, in many economies (for example during the Asian economic crisis), can be at least as destabilising as government failures. An understanding that all outcomes are uncertain, using an open systems approach, should enable governments to design better policy, rather than implying that attempts to shape the economy should cease.

This said, the idea of reflexive feedback mechanisms is based on the principle that many parts of social reality affect themselves, and that cause-and-effect is only one way of conceiving of the relationship between entities in an economic system. It is possible to go deeper than a statement that policymaking can fail; instead reflexivity implies that purported 'cure-all' policies are highly fallible, that policies must be applied in combination and that many policy recommendations are partly self-defeating. A parallel is the Lucas critique (Lucas, 1976), which suggested that microfoundations to macroeconomic models were crucial, since aggregated data does not accurately capture individual behaviour. Policy advice succeeds or fails by virtue of its ability to deal with changing individual behaviour, while policy advice can change individual behaviour. Part of the challenge lies in disaggregating policy measures, and their outcomes, and taking action to rectify or avoid the negative consequences. One task of the practitioner of development economics is to minimise the extent to which aspects of policy undermine themselves and to remain alert to the possibility that once-successful policies might become outmoded.

4.6.4 **An allowance for theory to be revised if it proves inadequate or as circumstances change.** This should be obvious, but for all the teleology of mainstream modernist economists, many are reluctant to allow wide-ranging epistemological progress. The methodology underlying mainstream development economics during the last decade or so has remained somewhat stationary. Confronting the postmodern challenge does not mean accepting that methodologically 'anything goes'; rather it means an openness to fallibility, allowing for the possibility that theory which might have been appropriate previously, may, as circumstances change and enquiry proceeds, turn out to be inadequate. The honest reappraisal of theory becomes important, as, possibly, does its augmentation or replacement. This is more than just Popperian falsificationism; competing theories may subsist simultaneously in the same context. Moreover theories may become inadequate because social circumstances change rather than because science makes new discoveries.

An understanding of policy and economic theory which was self-scrutinising, recognised the importance of context, was aware of the potential for policies to undermine themselves and understood the social influences on policy, would be more likely to lead to a revision of development advice to make it more closely tailored to local circumstances. The arguments of

Bourdieu imply that economics might periodically re-assess its methods. Economists such as Marshall and Keynes believed that economics is not an ever-enlarging body of knowledge, but a way of thinking. Some pluralist economists would go further, disputing the uniform nature of economics and arguing instead that it includes several ways of thinking.

As chapter 7 shows, successful developing countries such as Singapore have proven able periodically to change their development narratives, with the government altering its theoretical stance. Rather than operating within a developmentalist paradigm which shifted resources into areas of apparent comparative advantage, leaders began to talk in Schumpeterian terms, promoting entrepreneurship and highlighting what it saw as the benefits of a process which was pushing unemployment to historic highs. Not all states are as small, adaptable or in control of policy as Singapore, but the experience shows that the self-conscious reassessment of theory and policy can produce positive results, and that developing countries must retain policy autonomy to be able to cope with change.

4.7 Conclusion

An excessive concentration on style or form to the exclusion of action can be frustrating to the development economist who is interested in change. Some postmodernists do not consider themselves to be contributing anything more than stylistic variations, in the belief that proposing substantial alternatives commits the sin of modernism. Interpretations of postmodernism, in particular in the tradition of Lyotard, that deny the possibility or even meaning of progress, or that suggest any social outcome is as good as another should perhaps be left to one side; such views are incompatible with the promotion of economic development on any definition.

The social sciences that are concerned with methodology can, however, contribute to the way that economists theorise and practice development. It has been suggested that Bourdieu belongs to this strand of thinking, and that other thinkers in the tradition of reflexivity have valuable insights. Similarly, economics helps focus social theory on practical change, if indeed this is considered desirable. It would seem a profitable exercise for development economics to confront the challenge of postmodernism, even if it is to rebut it. Such exercises are not without precedent: John Maynard Keynes explicitly defined his relationship to modernism, and in so doing discussed issues that are now considered outside the boundaries of economics. He recognised that addressing fundamental philosophical questions, such as the role of the particular versus the universal, or the limits of human knowledge, are part of progress in economics.

The process of engaging critically with postmodernism is likely to move the discussion further. Bourdieu's inter-disciplinary approach points to the conclusion that economics is social theory rather than methodologically individualistic. Bourdieu proposes a research method that combines the objectivist stance of the outside researcher with the subjective angle of the local inhabitant. Purposefully performing self-reflexive analysis and positioning yourself inside the society that you are examining leads to more complete explanation. This affects method. It can be difficult to perform subjective analysis or research using an exclusively formal approach, and Bourdieu is critical of what he calls rational action theory. Moreover his approach urges caution in making recommendations or predictions, or the likely consequences are subject to uncertainty.

The kind of approach put forward by Bourdieu is at odds with the current methods of the international financial institutions, which are non-reflexive, do not recognise the social origins of theories of economic development and which have not engaged methodologically with the issues of modernism and postmodernism. Moreover, they do not take into account the importance of peculiar national social and economic details. These absences have made policy during the last two decades less effective than it otherwise might have been.

In proposing an outline of development practice, there is the danger of falling into the very prescriptivist trap that reflexive approaches try to avoid. The postmodern critique of the Washington Consensus shows that it has tried to force a tight straightjacket on to countries, irrespective of context. The taxonomy involves an implicit normative question: what are "successful development processes"? The intention here was not to try and answer this question in any specific way, but simply to point out theoretical principles which might lead countries to choose their own development paths, thereby allowing them to discover successful development processes for themselves. It is hoped that the proposals are general enough to avoid defining development in a way that simply reflects the author's prejudices, whilst retaining some sort of theoretical purchase. I, as the author, plainly have a social background (discussed in the introduction) which affects what has been written, but at least acknowledging the existence of this background gives the reader some criterion with which to accept or dismiss the proposals. In any case it was acknowledged in section 4.4.1 that exposing material or social motivations does not by itself disqualify the consequent ideas or behaviour.

The taxonomy is supposed to be more than just a wish-list. It may be all very well to argue for a change in the thinking behind the practice of contemporary development economics but the international institutional set-up may preclude methodological change. As suggested above, however, room always exists for theory to manoeuvre away from a simple reflection of material interests, and opponents of change often wrongly try to portray it as impractical, not just undesirable. The Washington Consensus can be replaced by self-aware, context-sensitive alternatives, based on methodological principles that lead to a close interaction between theory and practice.

Part two examines the taxonomy in the context of two developing countries, Vanuatu and Singapore. The next chapter outlines some of the reasons for choosing these two countries and discusses the issues of comparative study and contrastive explanation.

PART II

5. INTRODUCTION TO THE CASE STUDIES

The two economies under discussion have peculiarities which make them very different from each other and from other developing countries. The differences between the two countries also means that any results from a comparison will prove limited. Vanuatu is officially 'least-developed', geographically isolated, poor and recently independent, while Singapore is richer than many developed nations, lies on a major trading route and has a long commercial history. Some postmodern-influenced views might suggest that any comparisons are difficult anyway, and that such differences make the task even harder. Many mainstream modernist economists might also reject a comparison, since econometric studies often involve roughly similar countries, in the same geographic region, with the aim of isolating particular features which it is believed will contribute to cumulative economic knowledge.[27]

The discussion in chapter 4, however, implied that *many* experiences of economic development hold lessons for each other, if sometimes limited, and that successful comparison lies in establishing objective points of comparison. Reflexivity implies thinking explicitly about methodology and perhaps revising it – rather than leaving methodology unspoken and unchanging – in order to help derive useful lessons. In line with the kind of approach suggested by the taxonomy, comparative studies help discern interesting results, but without giving them the appearance of timeless, concrete laws derived from within a closed system. Moreover unusual comparisons can produce surprising results.

[27] A well-known development economist suggested to me at the beginning of my research that I should find two more similar economies as case studies because a comparison of Vanuatu and Singapore would not bear much fruit.

Lawson highlights the value of contrastive studies when he notes that:

> In short, it is through recognising that generalisations about concrete social circumstances and processes will usually have limits, and through exploring how specific generalisations break down in areas where our current understanding suggests (most reason for supposing) they could nevertheless have held, that we can learn, by way of contrast explanation, of hitherto unknown or insufficiently understood factors that make the difference (Lawson, 2003: 100).

In a sense all science is about learning of hitherto or insufficiently understood factors, but in social science and some other areas this cannot be done in a laboratory environment. Lawson (*ibid*.: 88) illustrates his point with the example of plant breeding, under which researchers try to determine whether a particular chemical compound is responsible for increased crop growth. These experiments take place in an open field rather than in laboratory conditions. It would be difficult to perform a valid experiment on one plant in a laboratory and draw conclusive general results, so the researcher treats some plots in the field with the chemical compound and some without. If the plots treated with the compound grow faster, the compound can fairly be considered to be responsible. Lawson suggests that this kind of experimentation, partially modified, can be used in the social domain. The key point is that “there is no presumption that any causal factor, including the compound under investigation, interacts with other causal factors mechanistically/atomistically” (*ibid*.:89).

The case-studies of Vanuatu and Singapore differ from the kind of contrast explanation recommended by Lawson in several important ways. First, the objective is not to apply critical realism, although there are, as noted earlier, points of similarity between critical realism and the realism of certain thinkers who promote a reflexive position. I do not make an explicit attempt to determine underlying causal mechanisms or demi-regs that might explain economic phenomena. Second, the case studies concern comparisons of entire economies rather than discrete economic processes. Third, the purpose is not primarily to highlight new findings that are valid everywhere; it is to examine whether or not the taxonomy holds true in these particular economies.

Yet it is still worth acknowledging the general point that development economics does not take place in laboratory conditions, and that control experiments are not possible. Whilst the arguments of some extreme postmodernists might go as far as to suggest that this means no lessons can be learnt, and that economics is fatally flawed, this is too extreme a view, and it is the purpose of this thesis to argue that a middle ground is possible. Lawson's suggestion is useful: that limited results can be derived from contrastive explanation, as suggested by the example of plant breeding. Whilst it may be inappropriate for economists to try to isolate constant event regularities and it is impossible to hold all other factors constant in an attempt to find incontrovertible results, limited lessons can be derived from more general experiments, where the specific explanation may not be known but where the results can be taken as valid. Looking at developing economies – perhaps two countries that would not normally be compared – alongside each other can yield surprising and interesting findings.

It is therefore worth establishing what kind of comparisons are worth discussing and learning from, and whether the taxonomy helps in this task. According to some strands of reflexive thinking, particularly the approach adopted by Bourdieu, analysis is most useful when it focuses on something of which the researcher is part. To *really* know about an economy means that you have to spend time there. Comparing countries in which I had not lived would have been unreflexive and would have involved a rejection of the need for involvement with the subject under study. The argument of authors who write on reflexivity, and others, that practice is inseparable from theory implies that it would have been self-defeating to theorise about reflexivity without examining the ideas in practice.

A further reason for selecting these particular case studies was to focus on the details of the countries in which I had lived. I wanted to recount the nitty-gritty details of economic life in the places that I knew, including the impact of political decisions and social trends. Did Singaporean cultural mores matter for economic policy-making? Were Vanuatu farmers as self-interested as mainstream models supposed? I also wanted to discuss the peculiar minutiae of which only the country inhabitant is aware, such as the impact of news, unusual habits or unspoken ways of behaving. After two decades of one-size-fits-all policy, do such features have repercussions for development economics?

This might seem an arbitrary way of selecting case studies, but it may be equally arbitrary to adopt the usual tactics, which are to select case studies on the basis of the quality of data, population, per capita GDP, size of the economy or even whether they fit well with a favoured theoretical approach. The approach of mainstream comparative economics often seems to take place using a series of standard data, using generic tools. In this sense the neo-Austrian view is worth considering: that statistics can aggregate incompatible scraps of information, and that apparently impartial statistical analysis can miss pivotal subjective details such as cultural habits, the everyday flow of news, people's reactions to that news, and knowledge of flaws in data.

Although acknowledging the subjective is important, it does not mean abandoning statistics altogether. Selected descriptive statistics can be complemented with important subjective details. To reject the use of statistics entirely would mean that little could be appraised according to transferable criteria. Certain descriptive statistics, if accurate, such as balance of payments data, debt and GDP, can lead to helpful comparison – although limits must be acknowledged. Selected statistics are even more useful when subjective discussion establishes their validity and complements them with qualitative analysis.

Some statistical series can have more or less the same meaning in most countries. The balance of payments is calculated using a standard accounting method, which is why I use it in both chapters. Even if the data on which it is based can be unreliable, the IMF flow of funds analysis is often able to cross-check where problems occur and take remedial action. Debt statistics in various countries can also be compared, with some degree of caution, partly because they are subject to confirmation by the lender and the borrower. Trade data can be confirmed by an analysis of the mirror statistics, so that if United States data shows garment imports from Vanuatu, this can be checked with the home country's export data.[28] Although none of these uses of data is without its problems, they do provide rough benchmarks from which to make limited comparisons.

Contrary to the approach suggested by many modernists, and particularly positivists, it is questionable whether economic science is progressively building up knowledge about developing economies. This is not to say that economies and the

[28] This happened in 2003. The data was re-checked, as Vanuatu has no garment factories, and it was discovered that the importer had marked down the incorrect code: VU for Vanuatu instead of VN for Vietnam.

processes that drive development cannot be understood better, but that knowledge about development must be thought of as subject to periodic revision, that it can be contradictory, and that knowledge of developing countries may deteriorate. Tools and findings that once were considered finalised may become less useful. A Kuhnian perspective would suggest that what are regarded as truths might quickly become invalid as a paradigm changes. Further, as will be shown in the case of both Vanuatu and Singapore, new circumstances make new theories and policies relevant.

Comparison is a useful device because it avoids wide-scale generalisations about economic development and throws certain explanatory features into relief without suggesting lessons that are true for all time and across all developing countries. Comparison also allows that different peoples understand the world differently, and that understandings of the world are continually evolving. Achieving 'results' that are only temporary and limited may feel unscientific, but in fact this kind of approach mirrors developments in many natural sciences, where, as shown earlier, in recent years caution about modernism and positivism has increased.

The discussion of Vanuatu and Singapore shows that lessons can exist on different levels, including at least the methodological and practical levels. Discussions of developing countries frequently occur exclusively at the empirical or practical level, and theory is selected only insofar as it generates a set of final, positive results. The researcher may run a regression of GDP growth rates against some explanatory variables to which numerical values have been assigned, such as corruption, ethnic fragmentation or inflation. Once these findings have been 'established', it may be asserted that therefore corruption or ethnic conflict or inflation are always, in general, bad for economic growth in developing countries. Apart from the problems of assigning numerical values to qualitative data; or the difficulty of establishing timeless results in an open, evolving system; or the different ways in which variables combine across economies, approaches which produce purely empirical results are unnecessarily particular and may miss valuable methodological findings. Vanuatu, for example, is ethnically homogeneous, has no history of inflation and corruption was not the problem it may be in other countries. Analysis of such a unique economy must involve a higher-level discussion.

An exclusive focus on practical specifics can mean that knowledge is conceived in a closed way, and that alternative ways of thinking about knowledge are not considered. Focusing on accuracy, specificity and measurement omits the subjectivity that is sometimes necessary when discussing open economic systems. Over-specificity can also lead to overconfidence, particularly in the prescriptions of the international consultants involved in economic reform programmes. This was certainly true in Vanuatu. As Erik Angner has recently argued, "economists-as-experts are likely to be victims of significant overconfidence, and …the consequences can be dramatic" (Angner, 2006: 2).

The IMF or World Bank's self-criticisms of structural adjustment only go so far. The institutions may say that interest rates were too high or that reforms were carried out too quickly. A lack of attention to methodology (as opposed to method) means that moving beyond the monetarist financial programming approach is rarely considered, still less qualifying the use of models or even occasionally replacing models with subjective analysis. The focus of the analysis underlying such programmes of intervention is often so narrow that desired results are assumed in advance. Avoiding this problem would require a more widespread and open-minded discussion about how knowledge develops, including the possibility that economists cannot know about some outcomes with any certainty. Comparative case studies can highlight such epistemological concerns. Issues like policy autonomy and ownership, which were so important in Singapore, are more to do with knowledge of how *any* policies work, than about the policies themselves.

When a comparative discussion moves beyond the merely empirical, the importance of ontology likewise becomes clear (Lawson, 2003: 28-62). In the case of Vanuatu close attention to the use of money in traditional communities would have required questioning the generic nature of the structural adjustment model and its standard conception of money. This kind of discussion would have had important implications for assumptions about how markets work in that particular society, and in turn for privatisation, public expenditure and even the role of the state.

Development practitioners are not usually philosophers, and they do not use words like ontology and epistemology, but this kind of discussion is not complicated: it involves basic ideas like ‘can money be defined the same way here as in other countries?’; ‘should the results of this economic model be interpreted rigidly?’; ‘should we abandon the model if it does not work?’; ‘Might the institutions in this country not be compatible with rapid privatisation?’ To repeat a point made earlier, help with answers to these kind of questions usually comes from listening to local people.

Contrary to positivist approaches, which tend to assume that one school of thought is valid until superseded, the case studies presented in chapters 6 and 7 show that different theories and schools of thought can prove valid even within the same country. The case of Singapore does not show that the early developmentalist paradigm failed, but that after a certain stage of development and in a new international context, other influences such as a Schumpeterian emphasis on entrepreneurship and the new growth theory were held to be increasingly relevant.

This is hard to cope with from a deductive-nomological, closed systems methodological perspective. The different schools of thought are partly incompatible, and results cannot be derived using established laws from a central system of axioms. To this extent the postmodern critique is valuable in that it recognises the possibility that contradictory ways of thinking may operate simultaneously, and that not all understanding proceeds on the basis of rational calculation. But it is not necessary to resort to irrationalism or relativism; pluralistic conceptions of knowledge allow for the partial co-existence of different schools of thought.

The next chapter is the case study on Vanuatu. It follows the general outline of the taxonomy in order to make an assessment of whether the taxonomy is an adequate framework within which to examine development theory and practice in this context.

6. VANUATU: THE ANTI-CRUSOE ECONOMY

6.1 Introduction

Having discussed various definitions of reflexivity and drawn out some of their implications for the methodology of development economics in the form of a taxonomy, I attempt here to examine these ideas in practice. The idea that theory and practice are linked is central to reflexivity – and reflexivity itself requires practical application. Since the taxonomy is partly based on a critical discussion of the Washington Consensus there is also a need to examine the validity of the Washington Consensus. Vanuatu is a particularly good case study, for if the Consensus is to claim valid universality, it must apply not only to well-known less-developed states, but also to the global periphery.

This chapter examines Vanuatu's economic experience between 1997 and 2004, a period during which the Asian Development Bank (ADB) initiated a Washington Consensus-inspired[29] structural adjustment package known as the Comprehensive Reform Programme (CRP). The aim is to examine the points of the taxonomy in this context.

If there is any country that is at the periphery of the world economy it is surely Vanuatu. Ranked at the top of the 111 countries in the Commonwealth Secretariat index of vulnerability (Atkins *et al.*,2000)[30], it is three hours' flight from its nearest major market, Australia and has a population of only around 210,000.[31]

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[29] See appendix 1.

[30] Vanuatu scores 46.4 on the United Nations Economic Vulnerability Index. Above 31 is considered vulnerable and above 36 highly vulnerable.

[31] It is perhaps the ideal target of the literature on small and vulnerable economies that has emerged over the last 45 years. The first explicit treatments of small economies can be found in Kuznets (1960), Scitovsky (1960) and de Vries (1973); the literature has subsequently been developed in, amongst

Since independence in 1980 Vanuatu has been designated a Least-Developed Country by the United Nations (UNCTAD, 2004). It is unlikely to lose its LDC ranking until at least 2013 owing to its inability to show improvement in two of the three categories by which LDC status is assessed– economic vulnerability and the development of human resources. Official GDP statistics are unreliable, but per capita GDP appears relatively high for an LDC, at US$1,360 in 2005.[32] GDP growth is recorded at an average of 3.5% between 1980 and 2000 but has slowed in recent years (Vanuatu, 2004; ADB, 1996).

A number of peculiar social and geographic features have influenced Vanuatu's recent economic experience. It is an archipelago of 83 islands, mostly inhabited, and spread across an exclusive economic zone of 530,162 km^2 -- an area roughly the size of France. This economic fragmentation has hindered internal trade. The country's remote location in Melanesia in the southwest Pacific puts it far removed from major shipping and telecommunications links. A combination of smallness and fragmentation has hampered the achievement economies of scale and competition, and has rendered the economy naturally open. Tropical cyclones and earthquakes are regular.

Vanuatu's history after 1907 as a joint British and French condominium administration (known as the New Hebrides) has had further economic implications. Most inhabitants speak French or English as well as Bislama, the national Pidjin, and their own vernacular. Vanuatu has among the highest number of languages per capita of any country, at approximately one per 1,000 people. The linguistic diversity has

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others, Srinivasan (1986); Easterly and Kraay (2000); Commonwealth Secretariat (2000); WTO, (2002); Grynberg and Remy (2004).

[32] Vanuatu, 2004; Note on statistics. Most are unreliable, especially before 1997, although in general international data are more reliable than domestic. The issue of the reliability of statistics will be discussed further below.

inhibited communication and therefore internal trade and investment. A combination of French and British civil services and legal codes creates significant bureaucracy.

The centrist approach of the colonial administration meant that many of the outlying islands, away from the main islands of Espirito Santo and Efate, received little 'development' and instead were used as pools of cheap labour and resources. Considerable resentment still lingers over the late 19th- and early 20th-century practice of blackbirding whereby people were tricked or taken by force to work as indentured labour on Queensland plantations and elsewhere.[33] As a result of the concentration of economic activity on two islands, only around a quarter of the population can be considered part of the cash economy. The rest of the population are mostly subsistence farmers who occasionally gather copra to pay for school fees or to serve temporary cash needs.

Another important residue of colonialism was that Vanuatu became the main tax-haven among the Pacific islands. In the run-up to their swift departure after 1980, and realising that the economy was highly undiversified, UK administrators hoped to make the country a focus for foreign capital flows. The government's reliance on border taxes for revenue has had implications for the country's recent economic experience, as will be seen later.

Section 6.2 corresponds with the first point of the taxonomy – an examination of the importance of external values and norms. This section focuses on the ways in which Vanuatu was influenced by accepted economic wisdom, or Washington Consensus-type advice, as it was realised in practice. The idea is not primarily to assess the structural adjustment experience, which has been done elsewhere (Gay, 2004), but to analyse the modernism inherent in the reforms. The identification of

[33] See, for example, MacClancy (1981).

problems was done in a standard way, and it was not clear the plan for the CRP took account of local values or norms.

Section 6.3 corresponds with point two of the taxonomy, exploring the extent to which local context was important and highlighting features peculiar to the Vanuatu economy which influenced economic development. Social and contextual influences affected the way outside economists and policymakers designed the CRP. It is suggested that they brought in particular values to the project without appropriate consultation of local politicians, civil servants and members of the public.

Section 6.4 shows how certain economic tools, concepts and policies undermined themselves, even though they were designed for greater control. As a result of the confrontation between foreign values and local demands, a number of policies fell short of their objectives. Not only did the CRP fall short of local expectations but it failed on its own terms, undermining the very results which it aimed to achieve. The CRP produced a reflexive process whereby economic tools and concepts employed with specific goals in mind ended up directly hampering the achievement of those goals. This was not just bad policy; it was the specific result of a lack of attention to local nuance.

Section 6.5 examines the CRP in light of point four of the taxonomy, suggesting that Vanuatu's reforms might have been more successful had there been an allowance for the thinking behind the reforms to be revised as circumstances changed, or if the reforms proved inadequate.

The final section ties together the points raised throughout the chapter and draws some conclusions.

6.2 The influence of external values and norms

6.2.1 The need for reform

There was little doubt that, by the mid-1990s, the Vanuatu economy was in need of structural reform.[34] One of the prominent features of the economy following independence was the chronic visible trade deficit. As table 6.1 shows, the deficit ranged from 7% to 38% of GDP between 1983 and 2005.[35] Almost all processed products were imported. Exports were generally very low due to a limited market size, a small, fragmented production base and dependence on a narrow range of volatile commodities such as copra. Exports by the start of the CRP in 1997 were worth 13% of GDP and have generally been lower as a proportion of output than in other Melanesian economies. In 1997 the trade deficit was worth 17% of GDP.

[34] Economic structure is defined in the sense defined by Kuznets (1960) and used in Killick (1995).
[35] In 2006 US$1 was worth approximately VT 110. The exchange rate has been reasonably stable for many years. The vatu is fixed against a basket of the currencies of Vanuatu's major trading partners.

Table 6.1 Vanuatu trade trends, million vatu, 1983-2005

Year	Exports	Imports	Trade deficit as % of GDP
1983	2,583	4,338	16
1984	3,939	4,826	7
1985	2,753	5,257	19
1986	1,806	4,849	24
1987	1,937	6,157	29
1988	1,559	5,883	28
1989	1,609	6,727	31
1990	1,783	8,854	38
1991	1,600	7,128	26
1992	2,027	7,131	23
1993	2,140	7,406	23
1994	2,402	8,203	23
1995	2,552	8,507	23
1996	2,708	8,647	22
1997	3,565	8,613	17
1998	4,323	11,257	21
1999	3,327	12,451	28
2000	3,622	12,315	26
2001	2,895	13,118	30
2002	2,590	12,433	30
2003	3,252	12,703	28
2004	4,167	14,306	29
2005	4,126	16,315	33

Sources: Vanuatu Department of Statistics; author's calculations
NB. Imports cleared for home consumption; Merchandise exports; figures in million vatu

Within the current account, the visible trade deficit was compensated partly by a surplus in services, around half of which was tourism-related. Remittances from overseas have been negligible, although they may increase with the possibility of guest-worker schemes in Australia and New Zealand. In the capital account, in 1997 as now, aid flows dominated capital transfers, with roughly half of aid payments distributed to government and half going to other sectors. The main donors were Australia, New Zealand, the European Union, France, Japan and China. Net private investment flows were strongly negative. Inward foreign direct investment during 2001 was only around US$9 million, but increased to around US$20 million in 2004.

Table 6.2 Vanuatu Balance of Payments 2004-5, VT million

Item	2004	2005
Current account	-2702	-3963
Balance on merchandise trade	-8291	-10,094
Balance on services trade	5,746	6,515
Balance on investment income	1,764	2,475
Net current transfers	1,607	2,091
Capital account	-351	-177
Financial account	2,526	4617
Net errors and omissions	527	-477
Gross official reserves	6,615	7,596

Source: Reserve Bank of Vanuatu

Vanuatu has, and in 1997 had, a balance of payments problem. Although figures for 1997 are unavailable, a deficit in merchandise trade worth VT10.1 billion (US$92 million) by 2005 is typical of the last decade. It might be pointed out that many countries, most notably the United States in the last quarter-century, enjoy long periods of economic success with a current-account deficit. However the Vanuatu government has long declared economic self-reliance as its principal policy objective. Whilst aid (which is the largest part of net current transfers above) temporarily compensates for the trade deficit, dependence on foreign donors was undesirable over the long term, not least because it has contributed to the existence of the economic schism between the capital, where most aid is spent, and the cash-poor outer islands. To paraphrase one of the International Monetary Fund's key principles, Vanuatu did not have non-aid net capital inflows compatible with its development and growth prospects that were sufficient to sustainably finance the current-account deficit (Guitian, 1981: 4).

Political volatility resulted in policy paralysis, further supporting the case for economic and political reform.[36] Instability was a product of the considerable constitutional power vested in the executive and the possibility of forming a new government without holding elections. The result was an administration in constant flux, since backbenchers had nothing to lose by trying to form a new coalition. Ministers had no incentive to implement long-term policies because they knew they were only in office for a matter of months.

Many arms of government simply performed badly. At the first CRP training seminar for parliamentarians on 2nd June 1997 then Prime Minister Rialuth Serge Vohor, probably Vanuatu's most prominent politician from the mid-1990s onward, said: "The continuous poor performance of institutions of government has had a destabilising effect on the economy and the community. It is a major impediment to reform and growth…" (CRP, 1997:15).

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[36] According to unpublished documents at the Parliamentary library, Vanuatu had 11 different governments between 1995 and 2006.

By the middle of 1997 several extra-budgetary provisions threatened a cash-flow problem. Corruption was also growing, building up to protests during 1998 when a politician tried to steal assets from the Vanuatu National Provident Fund. Later in the same year there was a botched attempt to devalue the vatu.

This culmination of events partly explains the rush to enact the programme and may also give some clues as to why the reforms used such a generic template. Some domestic civil servants may have been led to believe that a crisis was imminent, while foreign consultants were probably unfamiliar with the volatile nature of Melanesian politics and believed that action needed to be taken rapidly.[37]

Unlike some other structural adjustment programmes which aimed at rapid change, the CRP 'big bang' was followed by a programme lasting many years. Phase one, entailing a spate of public-sector reforms, began in July 1997 and ended in December 1998. Phase two, dealing more with economic policy, lasted until the end of 2000. Phase three was still in progress by 2006. Annual summits take stock of the CRP's progress and aim to prioritise issues for the coming year.

6.2.3 The universals of development practice

The original CRP (1997) document details five main objectives which can be found in identical ADB reform programmes in the Cook Islands, the Federated States of Micronesia, the Republic of the Northern Mariana Islands, Samoa and the Solomon Islands: (Knapman and Saldahna, 1999: 177-184)

1. Renewing the institutions of governance

[37] For recent discussions of fragmentation in Melanesian politics see Morgan (2004) and Powell (2004).

2. Redefining the role of the public sector

3. Improving public sector efficiency

4. Encouraging the private sector to lead growth

5. Improving social equity.

These objectives were split into a further 25 specific aims complete with actions to be carried out by particular ministries and departments. The universal and generic nature of the reforms held selected benefits. Objectives 1 to 3 resulted in discernible improvements. Because the ADB had implemented the reforms elsewhere, it carried them out quickly and, presumably, more cheaply than it otherwise would have done. Government and civil service decision-making became more transparent. For example before the CRP the Minister for Immigration could issue a 'green letter' to expel foreign residents without reason or redress. Now such decisions can only be made through court.

The emphasis on good governance, common in foreign donor programmes around the world in recent years, has borne some fruit. The public sector has become more modern and accountable although there are problems in this area, as will be seen below (Huffer and Molisa, 1999). A new public service code has reduced nepotism. The free press, an important watchdog on government, has developed under the era of more open government. It is unlikely that Transparency International would have been able to operate freely before 1997.

Prior to the CRP the Minister of Finance vetted investment proposals. This created opportunities for bribes and could be time-consuming and arbitrary. The new Vanuatu Investment Promotion Authority has a mandate to approve and process investment applications quickly and consistently (Republic of Vanuatu, 1998). This move was in line with the World Trade Organisation's emphasis on more easily facilitating foreign investment.

Financial management has become more consistent and professional, with a long-term AusAid project in place to build capacity. A strict payments system is now in place and proper accountancy procedures support ministerial budgetary decisions. Consultants have achieved some success in training their local counterparts. (The process of financial management is different to the magnitude of government finances, an issue which will be discussed below.)

The CRP aimed to improve the quality of statistics, partly because international agencies demanded a standardised, apparently non-subjective way of analysing policy and the economy. Some success was achieved. Data series before 1997 suffer major gaps, and basic data such as consumer-price indices are unavailable or clearly unreliable. Following the CRP, trade data became more reliable because it used the UN Automated System for Customs Database (ASYCUDA), whereby Customs officers log entries into a database at the border. In recent years, however, the system has failed to work properly because it requires particular IT skills and because a system of self-declaration has been used. Several importers are suspected of mis-classifying their purchases in order to pay lower duties.

Debt data are reasonably reliable, in large part because they are monitored by the external agencies who are owed money (an amount which has increased as a result of the CRP). Finally, GDP data improved but are still essentially the result of a group of civil servants using basic models quarterly to estimate growth in expenditure by demand component. Collection of primary expenditure data remains weak.

A more general advantage of the externally-imposed nature of the CRP was that, like other structural adjustment programmes, it allowed local policymakers to begin rapid and radical change without suffering the blame for painful decisions. Without the intervention of an external agency reform would probably have been piecemeal and fragmented, and hence might have been less effective: “The most important point is that reform must be comprehensive.” (CRP, 1997: 11)

Local knowledge was in short supply– few local civil servants could have produced the small improvements to transparency, the investment procedure, financial management and statistics mentioned above. Those local officials who may have possessed the skills were mostly recent economics or business-studies graduates on the lower rungs of the public service. It was also clear that a fresh outside perspective could identify policy failures, free from the subjective constraints of everyday work. Useful lessons should have been available from other countries in which the ADB had initiated reforms.

6.2.4 Could Vanuatu follow its own path?

Unfortunately the lessons learnt did not extend beyond the general level. As mentioned earlier, the ADB had recently, or was simultaneously, conducting reforms in five other Pacific island countries. Rather than moulding reforms to suit individual circumstances, the specific aims of all the programmes were almost identical. Little attempt was made to assess Vanuatu’s individual case. From the ADB’s own assessment report on the regional reforms it can be seen that every country was told to reduce the size of its public service, improve ‘governance’ and corporatise and privatise state-owned businesses (Knapman and Saldahna, 1999: 177-184). Every country received a small grant and a large loan, the payments of which were conditional on the successful achievement of the stated objectives. Trade liberalisation was a standard goal. As shown in appendix 1, this type of programme intentionally followed the neoliberal Washington Consensus applied throughout the developing world in the past 25 years.

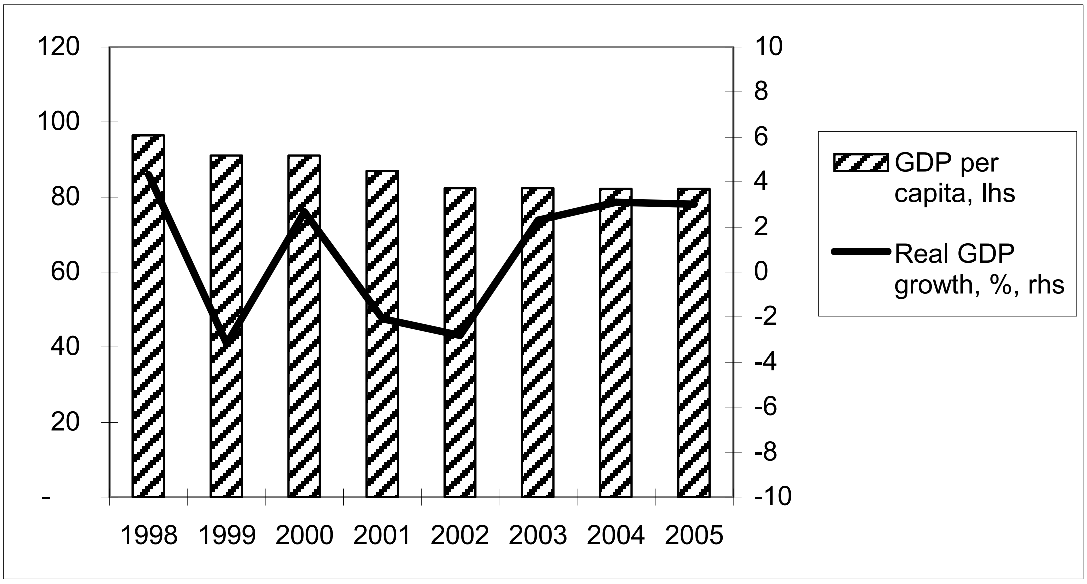
Major ethnic, historical, economic and geographical factors differentiate the Pacific islands, and to apply an identical template everywhere was fraught with difficulties. For instance relatively dynamic Samoa, in Polynesia, is often compared with Vanuatu (usually to the detriment of Vanuatu policymaking) because it is an LDC and its population is roughly the same. However Samoa's economy has the benefit of overseas remittances worth up to a half of GNP; it does not suffer the disadvantage of geographic fragmentation because it comprises two main islands; and it has a supportive and nearby former colonial power in New Zealand. Further, it is a more mature nation, having achieved independence in 1962. As will be shown in section 6.3, additional economic differences set Vanuatu apart from the other Pacific islands. It is doubtful whether generic reforms from other parts of the globe were in their entirety relevant to the Pacific.

Underlying the CRP was the implicit belief, inherent in all neoliberal structural adjustment programmes, that markets alone would solve the development problems facing Vanuatu. All that was required was to build up selected institutions and to improve governance. Of the five main CRP objectives stated above, only two are 'macroeconomic', and these were half-hearted and unsuccessful; indeed there seems to have been a suspicion about the effectiveness of *any* economic policy. The classical belief in the benevolence of free markets was left implicit, but plainly here was a case of a laissez-faire doctrine that a reduction in the role of government would return the economy to full employment in the long term, with no question of deficiency in demand. Perhaps a quote from Keynes on Ricardo is applicable here:

"[He] offered us the supreme intellectual achievement, unattainable by weaker spirits, of adopting a hypothetical world remote from experience as though it was the world of experience and then living in it consistently" (Keynes, 1936: 192).

Whilst Vanuatu cannot yet be said to have reached the 'long term', the signs during the following seven years were not promising, with GDP suffering its worst period of growth since independence (see figure 6.1) and unemployment – as far as such a category is relevant to a largely subsistence economy – just as high as it was in 1997.[38] It will be shown later that some of the reforms actually slowed economic growth. Furthermore, applying a model with purely material objectives may not have been suitable for Vanuatu.

Figure 6.1 Vanuatu real GDP growth and per capita GDP, 1997-2005



Source: Vanuatu Department of Finance and Economic Management
Figures on left-hand scale in thousand vatu; Data for 2004-5 are estimates

[38] Reinert (2005) suggests that a lack of formal employment has always been an important reason for why many developing nations are locked into poverty.

The CRP document tried to compare Vanuatu with East Asia, while the ADB, using a modernist and generic approach, adopted the same model that it had promoted there. According to the original 1997 CRP plan: "The country has experienced such low economic growth that, on average, people are little better off now than they were ten years ago. This is in sharp contrast to most other countries, especially the dynamic economies on the Pacific rim" (CRP, 1997: 8). The CRP document further claims that studies of fast-growing economies, particularly in East Asia, indicate that economic growth is best promoted by a "high degree of openness to the global economy" (*ibid.*: 11).

This statement is misleading. As a number of studies have suggested, the rest of the world was open to the East Asian tigers, but the tigers were not necessarily open to the rest of the world (World Bank, 1993; Chang and Grabel, 2004). Many were selective about foreign investment, employed fixed exchange rates and capital controls and used significant protective barriers to nurture their infant export industries. Such recognitions form the basis of important theoretical trade papers such as Brander and Spencer (1985) and Krugman (1984). The lessons from the various models employed by industrial powerhouses like South Korea and Singapore are limited for least-developed Vanuatu, a young, fragmented, tiny and isolated country. Liberalisation should perhaps be even more cautious in a country with a persistent trade deficit where government revenue depends on import duties.

The CRP reinforced the impression that Vanuatu could emulate the East Asian boom by predicting that: "In the second period [of the reform programme] between 2000 and 2005 the fruits of reform really begin to 'kick in' and GDP growth accelerates to an average rate of 5.8%" (Asian Development Bank, 1996: xv). It is unclear how such a precise figure was generated, particularly as data were weak. As figure 6.1 shows, GDP in fact shrank during three of the next five years, performing worse than at any time since independence. The higher rates of growth in 1998 and 2000 are a result of CRP loan spending. Per capita GDP fell gradually from 1997 to 2004. On the most basic measure of economic development, the CRP had failed.

The CRP, following most other structural adjustment programmes, advocated joining regional trade blocs and the World Trade Organisation, moves which were presumed to lead toward current-account liberalisation (CRP, op. cit.: 35).[39] This is further evidence of the one-size-fits-all nature of the reforms– it was easier to insert Vanuatu into a regional and global system of liberalisation than to design an integrated programme with which Vanuatu could cope. Unfortunately, this meant subjecting inexperienced civil servants to the negotiating muscle of the United States, resulting in the suspension of accession in 2001 (Gay, 2005; Grynberg and Joy, 2000).

Ironically WTO accession negotiations did not result in a proposal to lower import tariffs, since all negotiated upper limits for duties (known as 'bound rates' in WTO parlance) were higher than applied rates.[40] The government wanted to maintain high tariffs because it depended on them for revenue. Vanuatu would have been the first LDC in the world to join the WTO. Therefore its accession required particular and detailed study and should have been incorporated carefully into structural adjustment instead of simply being set into motion and left to operate as an autonomous process.

The World Bank (2002) and others, such as Narsey (2004) have argued the standard case for unilateral tariff reduction in the Pacific region, which is that it would reduce the 'deadweight loss', resulting in a more efficient allocation of resources and

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[39] The regional trading blocs are the Pacific Agreement on Closer Economic Relations, the Pacific Island Countries Trade Agreement and the Melanesian Spearhead Group Free Trade Area.

[40] WTO (2001a); The average trade-weighted tariff in 2004 was 19%. The average bound rate (upper limit) under the draft WTO offer was 40%.

an increase in consumer surplus. In other words, Vanuatu should not adopt a mercantilist attitude to trade liberalisation. Such issues require more detailed discussion, but it is worth pointing out that the retail and wholesale sectors, like in many small economies, suffer highly imperfect competition, so any price reduction due to lower tariffs is unlikely to be passed on to consumers. Instead it would probably be appropriated by the only major import company (the supermarket mentioned above). Unless government or consumers can capture a large part of the welfare improvement resulting from tax reform, rapid trade liberalisation is likely to severely drain government finances, in turn further weakening its capacity.

There are reasons for believing that trade policy should be flexible in small, exposed economies that need adaptability in times of hardship. A number of commentators on trade policy, such as Grynberg and Remy (2004) and Bernal (2003), argue that within the context of the global trading regime, "Small developing economies have structural and institutional characteristics that… identify [them] as a distinct type of economy." (Bernal, 2003:108). As part of its WTO accession Vanuatu was required by members of the Cairns group of agricultural exporters to prohibit the subsidies that it occasionally distributed to coconut farmers when prices were low or when a cyclone destroyed their crops (WTO, 2001a; Grynberg and Joy, 2000).

This was a particularly inappropriate restriction on policy. Not only had it the potential to render the economy vulnerable to international price shocks, but it would leave farmers with no source of cash income. The prohibition ignored two of the most notable features of the economy: its reliance on a single commodity and its susceptibility to natural disasters.

Whilst WTO accession left room for flexibility in import tariffs, the CRP's emphasis on trade liberalisation via regional trade blocs did not. The narrowness of the tax base and difficulty of collecting revenue require some room to change import tariff rates outside the strictures of international trade negotiations.[41] The government evidently also sees tariff rate flexibility as a priority for protective reasons because it raised duties to 35% on six manufactured products during October 2002. Ministers have made repeated demands for more adaptability in regional trade agreements, often using the argument that they are uncertain about the future so they would prefer to keep tariff policy under their own control.[42]

A computable general equilibrium (CGE) study of regional trade liberalisation was completed in 1998 (Scollay, 1998). Unsurprisingly considering the author's neoclassical theoretical perspective, the results showed that non-preferential trade liberalisation yielded the greatest welfare gains for regional economies. Its findings were questioned by the Vanuatu Department of Trade partly because officials did not understand it, but also because the statistics on which it was based were unreliable. Its assumptions were unrealistic in a way that limited its applicability – including the belief that import taxes could easily be replaced by income tax or VAT – and the results so precise as to be questionable in such a volatile and poorly-measured economic environment. Quite apart from the criticisms of Arrow-Debreu general equilibrium levelled by advocates of open-systems ontology, some commentators have specifically argued against using CGE to analyse trade in developing countries:

> The data needed are generally beyond what is available and reliable in developing countries. More problematic are the unrealistic assumptions that must be made to conform to the theoretical demands

[41] The WTO and most regional trade agreements do include clauses allowing for a limited tariff increase in an emergency.

[42] For example see the front page of the Vanuatu *Daily Post*, April 13 2004, 'Vanuatu seeks better deal on trade'.

> of the model, in particular the assumptions of full employment of resources, perfect competition, perfect information available to all actors, the absence of risk, and efficiently functioning markets. Most crippling of all is the expectation that the supply-side will take care of itself without the need for targeted interventions (Brewster, 2003: 3).

A desire to retain national influence over economic policy underlay Vanuatu's decision to shelve WTO accession in 2001 after a package had almost been finalised. In the final schedule of commitments on services, Vanuatu was asked to liberalise 10 general areas out of a possible 11, with 50 specific commitments (WTO, 2001b). This is higher than most neighbouring economies and above the average for WTO members. The Solomon Islands included nine general services areas and Fiji only two. In its revised offer to the US during 2004, Vanuatu requested the exclusion of six key areas, arguing that it wanted to reserve the option of safeguarding health, environmental and social services against foreign ownership and that it would be too costly to provide national treatment in these areas.[43]

Confirming its Washington Consensus credentials, the CRP advocated the sale of a number of public assets. The stated aim was to make companies more efficient and to encourage the government to concentrate on providing an improved environment for enterprise. The resulting outcome, however, had a number of shortcomings. Most corporatised and privatised entities simply moved out of government jurisdiction and became private monopolies. Limited technical capacity and scant government resources – particularly at a time of budget cuts – meant that effective regulation was always unlikely. Although the lack of competition and high

[43] Republic of Vanuatu, 31 May 2004, letter from Minister of Trade to US Trade Representative entitled 'Resumption of Vanuatu's accession to the WTO'.

costs were mentioned in the CRP documentation, the relevant institutional improvements were not given the central importance that they should have received.[44] The absence of antitrust legislation or meaningful competition has meant that prices for many crucial services, such as water, electricity, telecommunications and transport, remain high. The one clear success was the privatisation of the post office, which is now run by New Zealand Post.

During the subsequent seven years no attempts were made to improve competition, while some political appointees retained major corporate influence. With 29 members, Air Vanuatu has the biggest board of any airline in the world. Many members are politically-affiliated and yet the government has little influence over the airline's operations.

The corporatisation programme was so fast and assets were sold so cheaply that it quickly depleted government revenues by removing the benefit of profits and dividends. According to a 2002 UN assessment report the "wrong sequencing of privatisation and corporatisation has deprived the Vanuatu government [of] over 3.5 billion Vt. [about US$35 million] in gross revenue" (UNESCAP, 2002: 18). This sum is the equivalent of about 62% of 1997 government expenditure.[45]

The CRP displayed an emphasis on cutting government expenditure typical of Washington Consensus-inspired structural adjustment programmes. The belief was that the smaller was the size of government, the bigger would be the role of markets and the more efficient the allocation of resources. Market equilibriation would automatically bring about efficient outcomes. Again this seemed to ignore Vanuatu's specific situation. Government was never big, with public expenditure averaging only

[44] The emphasis on quality of institutions is often cited as one of the main lessons of the experience of transition in Eastern Europe and the former Soviet Union. See, for example Williamson (1999); Stiglitz (2002). There is also literature on the importance of institutions for development, including Chang, (2002, 2003).
[45] Source: Vanuatu Department of Finance and Economic Management.

27% of GDP during the 1990s. This is about the same as the median level for all developing countries over the same period.[46] On average the budget was exactly in balance from 1990 until 1997.[47] The ADB itself points out that in 1990 Vanuatu had one of the lowest ratios of government employees per capita among Pacific island economies, at three per one hundred country inhabitants. This compared with the Cook islands at 18.2, Tuvalu at eight and Fiji with six (ADB, 1996: 103).

Vanuatu's tax-haven status meant there is no income tax, capital gains tax, value-added or land tax. Around 35% of government revenue now comes from value-added tax, which was introduced in 1998 with New Zealand funding. VAT revenues, however, are declining because of the difficulty of enforcing payment. Companies are legally liable for VAT only if they have a turnover exceeding around US$40,000 and most declare an amount just below this level.

The subsistence nature of most of the economy, and therefore the non-cash basis of much economic activity, renders the tax base particularly narrow. One large company, the supermarket Au Bon Marché, contributes almost all of VAT. The government does not have the technical capacity to introduce and enforce new taxes, while the idea of income tax is controversial. Import duties comprise the biggest single source of revenue because they have an established history and are easier to collect. The tax haven thus renders the government even more vulnerable to the problem of revenue collection common in developing countries.[48]

One of the most harmful effects of the misplaced emphasis on fiscal austerity was that bigger cuts were made to overheads than staff, because it was always easier to reduce the stationery bill than it was to make an employee redundant. As a result,

[46] Source: UN Online Network in Public Administration and Finance
[47] Vanuatu Department of Statistics
[48] According to Toye (2000), using IMF data, for the three years nearest 1987 the average ratio of revenue from trade taxes to GDP in non-industrialized developing countries was 5.13%, compared with 0.72% in industrialized countries.

salaries rose to 60% of recurrent government expenditure by 2003 from 50% in 1997. Redundancies were made generally, rather than according to merit. Departments find it increasingly difficult to function properly without sufficient funds for overheads. These results are consistent with the findings of Hicks (1991) and Killick (1995), quoted in Toye (2000), which suggest that developing-country governments tend to cut economic services first in an attempt to avoid a reduction in the size of the civil service. In Vanuatu it is difficult to understand why so much effort was devoted to curbing public spending when government extravagance was not a problem. Moreover, domestic credit creation was not rising quickly and neither was inflation. In a small open economy dependent on foreign prices and interest rates there was little likelihood of inflation running out of control.

Worsening the fiscal situation, during 1998 and 1999 the government was required to match ADB loans with about US$14 million of its own money for financial restructuring, and a further US$0.6 million between 2000 and 2001.[49]

To assist restructuring and 'fiscal stabilisation', the ADB lent US$20 million in two tranches during phases one and two (shown in table 6.3) – equivalent to half of annual government expenditure during those years and 8.3% of 1997 GDP. The incentive of a large loan at below-market rates, together with small grants, undoubtedly helped the ADB gain acceptance of its plan. Other bilateral donors were also involved, led by Australia. Part of the loan was used to employ 42 international consultants who were to carry out the first stages of the programme. The loan disbursement was front-loaded, with the biggest source coming in the first tranche, including a total of US$6 million for financial restructuring. A total of US$10 million, or half of the total, was released in one payment.

[49] Source: Vanuatu Department of Finance and Economic Management

Table 6.3 Asian Development Bank loans to Vanuatu, US$ million

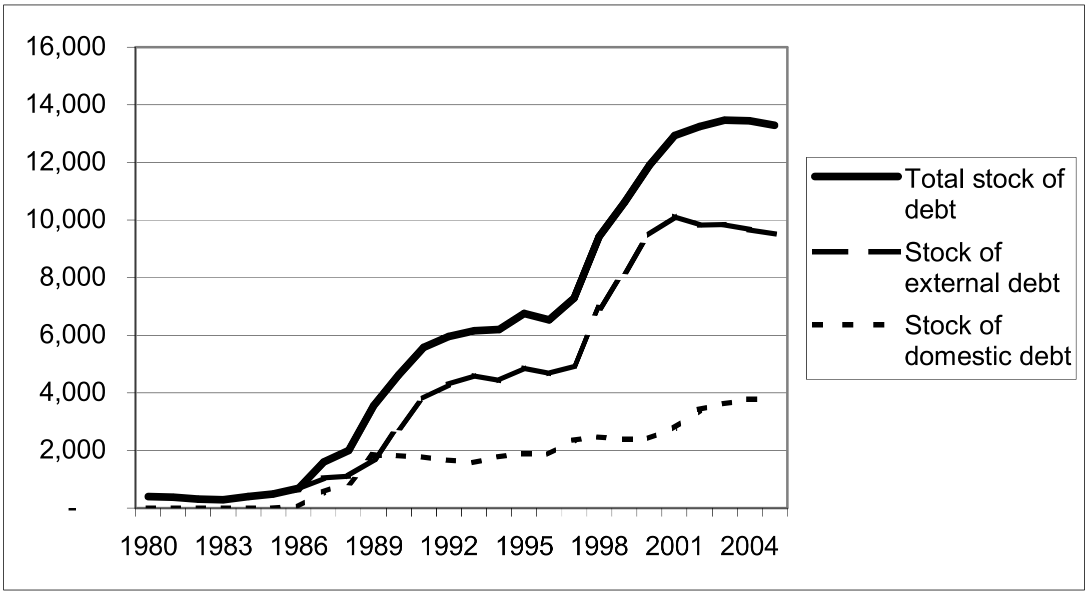
Purpose	First tranche		Second tranche	Total
	Release one	Release two		
Public sector cuts and restructuring	4	1	2	7
Financial restructuring	3	3	2	8
Fiscal stabilisation	3	1	1	5
Total	10	5	5	20

Source: UNESCAP (2002)

Paradoxically, rather than improving economic growth and therefore the fiscal situation, the CRP loans lumbered the government with a worse external borrowing position. A significant proportion of the initial lending was used to pay for the consultants. When they departed, there were few lasting results and yet the government was still paying off the loans used for their salaries. The remainder of the loan funds were used mostly for near-term consumption-orientated programmes, artificially boosting the economy in the short run and establishing a pro-cyclical spending pattern which was worse than if nothing had been done. Exacerbating this problem, forecasts of revenue and expenditure were based on the artificially high GDP figures mentioned earlier.

Figure 6.2 shows that the external debt stock, mostly ADB foreign-currency loans, rose sharply in 1997, doubling by 2004. It reached 40% of GDP by 2003 compared with 15.6% of GDP in 1990.

Figure 6.2 Vanuatu public debt, million vatu, 1980-2005



Source: Vanuatu Department of Finance and Economic Management[50]

More worrying from a financial management point of view is that debt servicing costs are expected to rise sharply from 2007 onwards as the principal on a number of loans comes due, as shown by figure 6.3. The Department of Finance and Economic Management predicts that total interest payments will have risen to 8% of domestic revenue by 2007 from 7% in 2003. This will cut into vital development expenditure on health, education and other areas. As a result of the debt problem the government adopted a limit on foreign lending.

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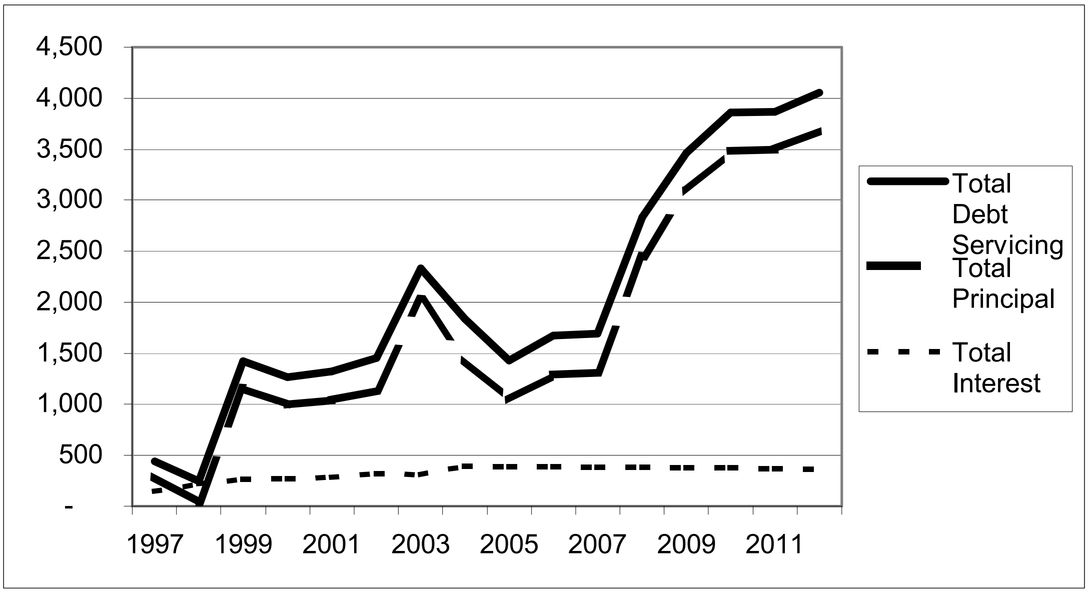
50 NB. Figures from 2004 are predictions

Figure 6.3 Vanuatu debt servicing, million vatu, 1997-2012



Source: Vanuatu Department of Finance and Economic Management

To summarise, the CRP contained a certain number of basic universals that helped ameliorate the consequences of a deteriorating economic and governmental situation, such as the improvement of statistics and the influence of an outside agency on which painful decisions could be blamed. However external values and norms played a strong influence, and in fact the government was deprived of the opportunity to assess the extent to which it accepted these outside universals, and to what extent it wished to focus policy around national economic context. The consequence of this surrendering of policy autonomy and the over-influence of external values and norms was a recession, and the country was burdened with a substantial amount of debt which will restrict development expenditure in years to come.

6.3 The importance of local context

The previous section showed how the CRP involved certain universal tendencies, many of which were inappropriate to Vanuatu's particular circumstances. Every economy has unique features, but some are more important than others, and perhaps the more unique the economy, the more economic policy must be more tailored. This section highlights additional qualities pivotal to Vanuatu's economic future which the reform programme might have taken positive steps to address. The reform programme sought its own goals, desired by donors, but to what extent did the CRP reflect local objectives?

6.3.1 Differences in institutions

The relation of people to their island and birthplace defines many social and cultural relations in Vanuatu. The transition to independence revolved around this issue, while throughout Vanuatu's colonial history there was a conflict between traditional ideas about land and European notions of ownership (Van Trease, 1987). The Constitution states that: "All land in the Republic of Vanuatu belongs to the indigenous custom owners and their descendants." Most ni-Vanuatu people feel a sense of belonging to a particular island or community before they consider themselves nationals of Vanuatu (meaning 'our land'), itself a name which is only 25 years old. Although relationships to the land vary across time and between islands, almost every family has inherited at least a small plot of land on which they grow fruit and vegetables and which serves as a social safety net. They do not 'own' land as private property in the capitalist sense; it is more a case of temporary stewardship.

According to anthropologist Knut Rio (2003):

> …it is a fundamental idea on Ambrym [island] that even if people see themselves as the ‘owner’ of something or the beholder of the ‘right’ to something, it also has to be acknowledged that the thing owned or claimed possibly came from somewhere else…There is both a focus on the finality of transactions in the here-and-now and on the infinity of the road of the things and people transacted… Therefore there is no property here that is not also the property of someone else.

The alien nature of private property in the Western sense has resulted in the prohibition of the freehold ownership of land. Leasehold lasting 75 years is allowed in some, mostly urban areas. Yet during WTO accession the United States made the standard demand made of most acceding countries: that land laws be revised to permit freehold ownership (WTO, 2001a; Grynberg and Joy, op. cit.). This would have been politically suicidal and culturally unacceptable, so Vanuatu negotiators could not compromise. As a result, significant concessions had to be made in other areas.

6.3.2 Differences in values

In Vanuatu the objectives of the CRP were incompatible with traditional vales. The tacit model of the CRP was methodologically individualist and assumed that people would be motivated largely by material gains. A number of prominent cultural features lead to the suspicion that, had they been properly consulted, ni-

Vanuatu people would have chosen a more inclusive reform programme which was based on traditional values. Although traditions change and there are dangers in identifying fixity in cultural values, themes of both community and non-materialism have featured throughout Vanuatu's recent history.

The desire to accumulate material goods has been muted. When European traders first arrived on the island of Erromango to buy sandalwood in 1820, inhabitants showed no interest in the objects proffered for exchange (MacClancy, 1980: 40; Van Trease, 1987: 12). The linguistic diversity of the islands and the division into self-contained villages suggest that trade was limited, while there was little point in exchange with neighbours when everything necessary for subsistence could be found locally.

Strong community bonds still mean that there are few incentives to build up personal wealth. It is common throughout Melanesia that family members are required to provide financial help to relatives in times of hardship. There is, as a result, little personal benefit from saving, and indeed many people do not think in such individualistic terms.

The role of tradition, or kastom, was considered by many to be so important that it combined with Christianity to evolve into a powerful political force, as shown by Miles (1998). The nationalist movement headed by Father Walter Lini, Prime Minister for the first decade after independence, proposed a "version of liberation theology that linked spiritual freedom to political independence for the oppressed" (Miles, 1998: 20). This ideology developed the idea that: "In pre-contact times, land was vested in groups which were based on common descent, residence in a particular area and participation in various activities. The group was the land – its ancestors were buried in it" (Van Trease, op. cit.: 3).

Lini's 'Melanesian Socialism' (Premdas, 1987), drawing on other colonial liberation movements, promoted economic independence from former colonial powers as well as Australia and New Zealand, and it was during this period that a policy of import-substitution was adopted, although unsuccessfully. Membership of the Non-Aligned Movement, close links with Gaddafi's Libya in the 1980s and opposition to nuclear testing in the French Polynesian Atoll of Mururoa confirmed that Vanuatu saw little in common with the international agenda of neighbouring and former colonialist countries.

It can be seen that the importance of community, a refuge in spirituality rather than materialism, and the need for self-determination have figured strongly in Vanuatu's recent history. The assumption of the structural adjustment programme that material gain would be the prime motivator of individual action appears misplaced.

6.3.3 Differences in behaviour

Behaviour regarding money took an unusual form in Vanuatu, and this had implications for economic development. Traditional money took the form of woven mats, pig tusks and shells. Certain foodstuffs also worked as a kind of currency since they were passed around as gifts at frequent social gatherings. Again, money was not used in the Western way. It could not be considered according to the textbook definition as only a medium of exchange, a unit of account or a store of value. It also performed a more social role, binding communities together by ensuring that people were continually obliged to one another (Rio, op. cit.). There was little point in hoarding money with the purpose of buying material items as few problems of scarcity existed. Most people had enough to eat and devoted considerable time for activities not related to material production.

The behaviour behind this traditional use of money has affected its use in modern urban society. Savings rates are very low and generosity high, with a significant amount of gift-giving. Micro finance programmes have displayed a poor record because traditional lending and borrowing were not quantified precisely, and many people do not fully understand the concepts of loans and interest. In addition, the continued absence of serious scarcity for subsistence farmers has meant people remain ambivalent toward the cash economy. Those who have no experience of the market economy and do not value material accumulation do not appear to be motivated by income.[51] A man on the island of Tanna expressed an idea which I have heard many times: “Long Vila, mi mas pem long kaikai. Hemi wan rabis ting-ting.” (In Port Vila, the capital, I have to pay for food. This is a silly idea.)

The particular role of money has meant that it is unrealistic to assume that a reduction in the size of government would automatically lead to a flourishing of market forces. A general paucity of business experience, which springs from an absence of desire for cash accumulation and lack of access to finance, means that it is difficult to talk of government ‘crowding out’ private investment. There is a cash economy but it appears unlikely to expand quickly. Government, although it is not large, acts as an essential provider of basic services not supplied elsewhere.

6.4 How economic tools, concepts and policies affected themselves

The CRP fell short of is own expectations, as shown in section 6.2. Further, the programme did not fit with subjective national goals. The suggestion in section 6.3 was that local people would probably have targeted a different set of priorities had

[51] Some have suggested that the rural communities face a backward-bending supply curve, but no empirical research has been done.

they been properly involved. These two questions overlap. In attempting to achieve standardised economic objectives the CRP actually undermined national values. By promoting the same kind of programme that Washington-based policymakers have advocated globally over recent decades, a set of principles was imposed on Vanuatu that conflicted with local priorities. Not only did the CRP reduce policy autonomy, but the intrusion of individualist and materialist ideas actually made it harder for local people to achieve the kind of economic system that they wanted.

This point will be developed in the current section, which aims to show how the tools and concepts employed during structural adjustment are ‘biting back’ with unintended consequences. A rupture between desired policy and practical outcomes meant that policies designed with the intention of greater control had the opposite effect. A reflexive feedback mechanism resulted in apparent policy solutions worsening the very problems that were identified in the first place.

The possibility of reflexivity presupposes three of the critiques of modernism highlighted in chapter 2; those of foundationalism, scientism and determinism. Modernist economic method as used in the CRP was foundationalist in that it perceived there to be only one basis to knowledge irrespective of how it is expressed. However thinkers as diverse as Marx (op.cit.), Foucault (op.cit.), Lawson (op.cit.) and Woolgar (op.cit.) have shown that knowledge is situated in a social context – it is produced, rather than pre-existing discussion. The CRP’s unstated belief in the validity of only one way of looking at knowledge – its own – had undesirable outcomes. If reformers were to have been sceptical about foundationalism in knowledge, they would have sought the views of nationals and indeed could have delegated aspects of the design and execution of the programme to local policymakers in order to include their types of knowledge.

The CRP was imbued with a modernist conception of science. In effect the ADB used the mainstream economics and Washington Consensus version of science and proceeded to conduct analysis exclusively using methods considered to meet scientific standards. These included establishing statistical series to calculate precise growth forecasts; generating computable general equilibrium models; and fitting Vanuatu's experience into official development categories that could be objectively assessed. Whilst it is going too far to assign equal validity to kastom 'science' and so-called Western science, as some have advocated[52], using local methods of attaining knowledge would have at least been more likely to have allowed effective communication with local people.

Perhaps most important for the aspect of reflexivity discussed here is the postmodern critique of determinism. By assuming that specific policy tools would predictably produce stated economic objectives, based on stochastic CGE models, the CRP failed to take account of the role of chance, the mutability of the relation between causes and effects and the possibility of worse consequences than had nothing been done at all (Cullenberg *et al,* 2001: 31). In reality, the absence of a deterministic relation between cause and effect and an inadequate explanation of real causal mechanisms at work in Vanuatu removed the outcomes of the CRP from what was intended. Seeing the economy as an open system in a manner suggested by Keynes, critical realists or the neo-Austrians might have mitigated the more damaging outcomes.

[52] For example the Director of the Vanuatu Cultural Centre suggested that *Kastom* medicine and magic should be taught in schools as having equal validity to what he termed 'Western science'.

6.4.1 The Public Service Commission

The implicit model of the CRP was that reducing the size of government would leave a bigger role for market forces and reduce the crowding-out of investment. It was believed that improving governance and promoting greater public-service efficiency would correct the role of government and allow it to play its proper role, which was stated to be that of creating a fertile economic environment. Of the total US$20 million in loans, US$7 million was devoted to public-sector cuts and restructuring along with substantial obligatory government spending, although unbalanced between labour and non-labour inputs. It has already been shown that the CRP worsened the government fiscal situation despite attempting the opposite.

In a further paradox, attempts to make the public sector more efficient actually reduced efficiency. It has already been shown that across-the-board shrinkage in government spending resulted in inadequate departmental budgets and lowered productivity. Building up the Public Service Commission, including the publishing of a rigorous public service code, ironically increased the number of officials in this area, created more bureaucracy and increased litigation.

The public service model, borrowed from larger countries like New Zealand and Australia where the consultants involved in its execution came from, was simply too big and complicated for Vanuatu. Before the CRP, staff issues were dealt with relatively informally by communal decision-making. Often matters would be settled out of office hours. After 1997, however, the increase in officialdom connected with salary issues and hiring and firing began to erode the time available for normal duties. The bureaucratisation of the public service has influenced the way in which officials work, with an increasing number believing that a large part of their job should be devoted to form-filling and letter-writing.

Jean-Alain Mahé, the former Minister of Trade and a member of the Francophone Union of Moderate Parties, was appointed head of the Public Service Commission in 2004. Mahé was considered proactive and senior enough to make decisions which were seen as legitimate, but the move fell foul of the political and personal rivalry that is unavoidable in such a small country. Mahé immediately sacked the Director of Tourism because the two had conflicted during his term in office, while he ignored endemic and open corruption in the Department of Lands, partly because the perpetrators were sympathetic to his party. In creating a powerful position which could impose decisions that were difficult to oppose, the public service reforms had worsened and institutionalised the very problems of political interference that they had set out to solve.

6.4.2 The quantification of the economy

Quantifying the economy was intended to improve understanding and to help policy design. The enhancement of data helped with the description of the economy and enabled a better general comparison with the same data in other countries. As suggested earlier, this had certain advantages. However the increasing use of technical concepts began to supplant customary ways of thinking about the economy. For example the government's focus shifted from anecdotal and subjective knowledge of seasonal agricultural output, with which many people are familiar, toward constructing the quarterly consumer price index. Such terminology was alien to most people in government. As part of my work for the government I collected fruit and vegetable price data directly from the main market every month for a year, and it conflicted strongly with the official CPI data. Further confirming the impression that it was fabricated, most of the CPI data did not vary in nominal terms over a five-year period, contradicting other measures which suggested consumer price inflation.

The increased amount of statistical information produced outcomes which were contrary to the spirit of the CRP, such as the emergence of a 'price control unit' which imagined it could collect data and set prices for important consumer goods. This approach faced all the problems associated with central planning, such as the undersupply of goods priced too cheaply and the inadequacy of information about individual consumer behaviour as highlighted by Hayek (1945). In the end much effort was expended with few results.

But the most perverse effect of the quantification of economic management was that it created an arena of expert knowledge that most civil servants could not understand. It actually perpetuated reliance on foreign technical assistants because they were among the few who could use the data for policy design. Of course, local graduates who are sufficiently trained in statistics and economics did exist, but they were only around a dozen in number and were mostly quite junior. The overall result was a reduction in capacity and an increase in confusion about policy design.

6.4.3 Trust in outside agencies

Another way in which the CRP undermined itself was in its erosion of trust in outside agencies. When it became obvious that the CRP was failing, many local people and civil servants began to show suspicion of any foreign initiative, including important development projects. This is also a reason behind the erosion of support for WTO accession: members of the public, civil servants and politicians lost confidence simply because the organisation was located outside Vanuatu. As mentioned earlier, the government decided to adopt a general policy of accepting no more foreign loans even if they might have had a positive rate of return.

During 2004 relations with Australia, the main aid donor, reached such a low that the Prime Minister expelled five consultants and threatened to close down the High Commission. There was an overt attempt to replace Australian aid with funding from other countries. As a result of the difficult early experience with foreign consultants, most new development or aid workers have found it more challenging to establish legitimacy. This worsened the delivery of vital health and education services – social objectives with which the CRP was supposed to help.

6.4.4 GDP as an end of policy

Sen (2001) has argued that development should not focus solely on wealth generation but should aim at the improvement of freedoms and capabilities. Stiglitz (1998) has suggested that the notion of development as a transformation of society should supersede a purely material perspective. Because the CRP involved the old, growth-orientated version of development thinking, it ended up undercutting its own economic aims. GDP stagnated and per capita GDP declined.

Simultaneously the CRP ended up shifting the emphasis of national policy away from local values. For example following independence the constitution created a second chamber of parliament with limited powers. The Malvatumauri*,* or Council of Chiefs, could debate political decisions and recommend alterations. It was less powerful than a Westminster-style upper house, but it had influence on cultural matters. The CRP, however, with its emphasis on material economic growth, relegated the house to little more than a rubber-stamping operation. Issues of tradition were shifted aside to make way for the 'more important' concern of making the economy grow.

This decision has backfired, with the Council of Chiefs becoming more vocal and a number of chiefs advocating a return to what they perceive as a pre-Western organisation of society. The leader of the Malvatumauri suggested during presidential elections that it would have been inappropriate to elect a woman. One island, with a population of around 10,000, has developed a strong independence movement which advocates a return to traditional hierarchical society. Of course all versions of Vanuatu's history, be they local or foreign, are seen through the lenses of the present. Trying to hark back to a 'traditional' past inevitably involves invention, and indeed there is strong evidence to suggest that tradition evolved, varied between different islands and that some communities were organised along matriarchal lines. Ultimately the ideas expressed by the Malvatumauri are anti-development by any definition.

In sum, it can be seen that, partly as a result of its foundationalism, scientism and determinism, the CRP invoked a reflexive feedback mechanism which meant that policies actually weakened their intended outcomes. This reflexivity took four forms: efforts to build the Public Service Commission ended up making the public service less efficient. Trying to quantify parts of the economy, although not without selected benefits, reduced the ability of local officials to design policy. The foreign nature of the CRP made future intervention more difficult. Aiming primarily at the accumulation of material wealth resulted in a decline in per capita GDP and prompted certain figures to try and undo many of the benefits of development.

6.5 The revision of theory as circumstances changed

The CRP undermined the ability of government to revise theory if it proved inadequate, or as circumstances changed. While the government is attempting to retain its capacity to change the theoretical backdrop to policy, structural adjustment reduced government autonomy in three ways. First, by forcing the government to engage in one-off spending worth a tenth of 1997 GDP, the Asian Development Bank worsened Vanuatu's indebtedness, as shown in figure 6.2. The doubling of dollar-denominated loans over six years raised the cost of policies such as currency devaluation. This might have been an option to tackle the trade deficit. The debt also gives the ADB leverage over national policy. The ADB provides an assessment of Vanuatu's investment grade, and Ministry of Finance officials feel that they must stay in line if they are to attract investment. In effect the advice of the major lender must now be acknowledged irrespective of whether it fits with national priorities.

A second way in which the government's theoretical and policy autonomy was curtailed was via the reduction in discretionary spending, which made it harder for government officials to do their jobs. A typical example is that of the Department of Trade, Industry and Investment, where the budget had fallen to US$143,000 in 2004. Around three-fifths of this was spent on the five professional staff and one secretary. The department simply could not function properly– there were no funds for research or travel and working conditions were inadequate. The department experienced 18 months without Internet access between 2003 and 2004, had its electricity turned off, enjoyed infrequent telephone access and possessed insufficient funds to repair the air-conditioning. It is precisely such critical details that are ignored by the universal policy prescription of general budget cuts.

Third, the policy of placing a large number of overseas consultants in senior civil service positions further restricted the government's ability to change theory and policy. In addition to the hiring of 42 short-term consultants, during the latter stages of the CRP there were moves to install a foreign national as head of the Department of Customs, while three legal advisers operated in the State Law Office. The long-term nature of these postings and the understandable tendency of the staff to promote the programme under which they were operating meant that government was less free to pursue the policies that it wanted.

Thomas Friedman's (1999) 'Golden Straitjacket' argument (outlined in chapter 4) suggests that this kind of reduction in policy autonomy should be an advantage. However this is far from what happened in reality. Political stability might have been beneficial for Vanuatu in that it would have improved certainty about economic policy, but this is a long way from arguing that the country ought to put on a 'Golden Straitjacket'. For the reasons stated above it would seem beneficial for the government to decide its own policy mix rather than have it dictated from outside. The economy began to stagnate when policy autonomy was reduced.

Seen from a Bourdieuean standpoint, the reform programme shifted too far to the extreme of objectivism, without taking into account subjective experience. In order fully to align the programme with economic reality, instead of the programme being designed from above, by foreign economists whose experience was largely elsewhere and whose methods were mostly formal, better results might have been achieved by a programme which used the subjective knowledge of local people.

To achieve useful reforms it would be necessary to cede greater control of the programme to Vanuatu nationals rather than enacting it on their behalf. Foreign policymakers, bringing with them the advantages of an outside perspective, might have brought local voices to the fore. The programme could subsequently have been designed by both Vanuatu and foreign policymakers. This may sound idealistic, but it was perhaps more unrealistic to expect the actual design of the CRP to work, with its lack of consultation of local civil servants and the public.

In the document which sets out the original CRP there is a distinct absence of local voices. Only once is a Vanuatu member of parliament quoted, and then to give assent, and no opinions of members of the public are given. The document is translated into French but not Bislama, the only common tongue and the language of everyday life. The vocabulary is foreign, and reference is made throughout to modernist terms like “Renewing the Institutions of Governance” and “The Role of a Modern Government” (CRP, 1997). Such language had limited meaning in Vanuatu.

A lack of consultation meant that the programme did not belong to Vanuatu people. The ADB assessment of the reforms, written by Knapman and Saldana (1999), acknowledges that: “The most significant success factor of Bank assistance for reforms in the Pacific is also the most obvious: political commitment to and ownership of the reform program is essential. Externally imposed reform measures (conditionalities) that have little government ownership are doomed to certain failure” (Knapman and Saldanha, 1999: 169). It might be added that ownership beyond parliament, amongst ordinary people, should have been given equal importance.

After the early stages of the CRP most of the foreign consultants left Vanuatu, while in 1999 and 2001 successful motions of no-confidence resulted in changes of government, meaning that few of the original initiators of the CRP were in office or in-country. Civil servants felt that the CRP burdened them with a new set of problems— the economy was performing worse and the foreign loan stock had increased, while a host of new legislation was on the books. They felt neither ownership nor a desire to promote awareness amongst the public. It is unlikely that many officials or ordinary people fully understood the aims or logic of the programme.

It is difficult to find an official or politician who speaks favourably of the consultative process. Almost all appear to believe that the programme was driven through too fast and with inadequate discussion. A few have become pessimistic after seeing the results. Serge Vohor, Prime Minister in 1997 and again in 2004, is quoted in the newspaper thus: "…the CRP is a failed initiative because it was driven towards the interest of foreigners. He would have liked the CRP to be founded on traditional and cultural principles."[53]

By 2004 civil servants expressed widespread scepticism. For example Roy Mickey Joy, the Director of Trade, Industry and Investment said that: "The CRP was a complete waste of time. It paid for the salaries of a few consultants and did nothing for the country" (Personal communication, 2004). The head of the Department of Comprehensive Reform Bethuel Solomon, charged with implementing what is left of the CRP, believed that the ADB pushed reforms without asking local partners what they expected (Personal communication, 2004).

The 2002 UNESCAP assessment of the CRP makes a related point: "Most of the consultants came from developed countries… They… ploughed through the change process at speeds which local counterpart staff could not keep pace with. The cultural shock… left the local counterpart staff somewhat baffled…" (ESCAP, 2002: 14).

A local commentator who was present at the June 1997 national summit when the CRP was adopted also believed that reform was too fast. "By June 1997 the

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[53] Vanuatu Daily Post, 12 October 2004

blueprint for economic and public sector reforms had been drawn up. A year later, the legislative requirements for the ADB loan to implement the CRP were being debated in parliament at a speed uncharacteristic of the usual prolonged ni-Vanuatu processes. This accelerated process leads one to question whether the CRP is a home grown product" (Salong, 1998: 17). Knapman and Saldanha agree: "The speed of formal rule-making has made it difficult to adequately explain to the population the key aspects of the reform…" (Knapman and Saldanha, op. cit.: 160).

Although outside consultants may feel that they sought opinions, many local people feel they did not take account of traditional decision-making. According to people who were there at the time, workshops were not conducted in Bislama. Traditional ni-Vanuatu decision-making takes a long time and is usually non-confrontational. A succession of newly-arrived consultants have been wrong-footed by their assumption that silence means acquiescence. People often appear to be agreeing with proposals when in reality they will go away and think about the issues, later arriving at a firm conclusion. This makes the public workshop a particularly poor environment for discussion.

By emphasising public-sector reform and basing the reforms on governance, the CRP appeared to shift blame on to Vanuatu legislators rather than structural macroeconomic factors. This further undermined ownership. It is also questionable whether short-term outside consultants knew more than some local civil servants about the productive sectors. As Knapman and Saldanha sum up, "the results [of using consultants and external advisers] are far from encouraging" (*ibid.*: 174).

WTO membership represents an example in which there was a similar lack of consultation. Part of the reason for the shelving of accession was that several important officials were simply excluded from the discussions. The leader of the negotiating team, Director of Trade Roy Mickey Joy, admits that:

> Firstly, and importantly, there was minimal consultation with or information provided to civil society, government and non-government organisations. The capacity available locally was insufficient. The suspension of accession was timely. It gave us an opportunity to do more work, and to realise the pros and cons and costs and benefits. We have held more seminars, forums and consultations since the suspension of accession (personal communication, 2004).

Officials at the Chamber of Commerce, although in favour of WTO entry, believe they should have been consulted more closely:

> People weren't sure what the WTO was. They didn't know what the benefits were for Vanuatu… The private sector and NGOs were not consulted on the process. That's why there wasn't any support from the stakeholders. There wasn't enough awareness on the WTO as a whole.[54]

A former official from the Department of Customs and Inland Revenue says that the WTO secretariat, which is supposed to act neutrally, tried to force through a highly liberal accession package without allowing Vanuatu negotiators the opportunity for input. Under the remit of providing 'technical assistance', the WTO secretariat appears to have believed that, without consultation, it could write Vanuatu's schedule of commitments on services. Demands typical of the United

[54] Interview with Sowany Joseph, Principal Trade and Investment officer, Port Vila Chamber of Commerce, 2004

States were included, such as the liberalisation of the wholesale and retail sectors and the opening of the telecoms and audiovisual sectors. It was only after the Minister of Trade belatedly understood what was in the package that accession was put on hold.

> I remember once the deputy director of accessions at the WTO was in Port Vila… The WTO official was, in my view, representing the US when he came here. There was no face-to-face bilateral; we were only exchanging correspondence… The WTO Secretariat appeared not to be acting independently– it was pushing on behalf of the US.[55]

The WTO deputy director of accessions has painted a different picture to me, but the balance of evidence suggests that the WTO secretariat and members of the Vanuatu working party wanted to bring negotiations to a swift conclusion. To enhance the development credentials of the WTO following the failure of the Seattle Ministerial meeting in 1999, it appeared that WTO officials as well as prominent members wanted countries from the three recognised levels of development to join at the Doha Ministerial in 2001: Taiwan, a newly-industrialised country, China, a developing country and least-developed Vanuatu. In the end, only China and Taiwan joined.

WTO rules require opening up to foreign investment from one country on a basis 'no less favourable' than another and to offer foreign and local companies similar terms.[56] This usually requires liberalising investment rules and could mean that the government lost some of its ability to veto investment projects. In other words

[55] Interview with Timothy Sisi, former Assistant Collector, Department of Customs and Inland Revenue, 2004. Now Principal Trade Officer, Department of Trade, Industry and Investment.

[56] Articles I and III of the General Agreement on Tariffs and Trade refer to Most-Favoured Nation treatment and National Treatment respectively.

government may lose its ability to vet foreign investors. However Vanuatu has been reluctant to do this, as its tax-haven status tends to attract disreputable businesses. Unscrupulous investors often try to take advantage of the lack of regulatory capacity. For example in the late 1990s an Indian fraudster bribed the Finance Minister to underwrite bonds worth several million dollars with a fake ruby. In 2003 a Vanuatu banker was arrested by the FBI for allegedly laundering money from a global lottery scam. In 2004 a US investor paid a deposit for a holiday resort, stripped it of most moveable assets and left the country.

The experiences of WTO membership and structural adjustment have to be seen against the backdrop of recent memories of colonialism. Many people were suspicious that Vanuatu was re-selling its country to foreign interests. Prominent civil society and NGO members have expressed fears of 're-colonisation'. (Salong, 1998). "What are the chances of the ni-Vanuatu taking on businesses and becoming capitalists themselves," asked one official at a non-government organisation. "They will remain labourers." [57]

6.6 Conclusion

By the mid 1990s economic change was imperative. The economy and political institutions were delivering neither economic growth nor development in line with local values. The current-account was in chronic deficit, whilst large annual aid payments were the only means of partially funding the visible trade deficit. The culmination of a series of political setbacks was perhaps the 'tipping point' that sent Vanuatu down the path of structural adjustment.

[57] Interview with Dickinson Tevi, Technical Assistant– Finance, Vanuatu Association of NGOs, 2004

The adaptation in economic structure promoted by the CRP followed the modernist Washington Consensus that had been enacted around the world in the previous two decades. This universalism had a number of benefits, the most important of which were that useful lessons could be drawn from other countries and that the reforms could reduce the culpability of local officials or politicians whilst remaining all-encompassing.

The universals of the CRP, however, presented major problems. As Rodrik (2002a: 7) says, "transitions to high growth are rarely sparked by blueprints from abroad." The CRP's laissez-faire stance wrongly assumed that a reduction in the role of the state would automatically improve economic fortunes. In fact the economy stagnated during the seven years after 1997, while wealth per person shrank. The role of the state remains open for debate, and there are strong reasons for thinking that in small, vulnerable economies – and others – fiscal policy and government intervention still have an important role.

A number of misleading comparisons with East Asian economies further confirmed the problems resulting from the 'one-size-fits-all' character of the reform package. It was inappropriate to liberalise trade without thinking carefully about Vanuatu's particular situation. Corporatisation, privatisation and fiscal tightening were all enacted without attention to local detail. Arguably the biggest criticism of the CRP is that it lumbered the country with a growing external debt problem: Vanuatu was obliged to pay for foreign consultants out of its own revenues, a fiscal drain which still persists.

The CRP ignored specific economic characteristics, including the role of money, the role of land and the unusual tax structure, which should have necessitated careful attention to trade policy. As it was, the model of trade policy applied to

Vanuatu was rigid and inflexible. It forced national policymakers to carry out standard policies which were contrary to the country's own interests. A more suitable set of reforms would have recognised the need for officials to retain control of policy, which in turn would have enabled them to accommodate the features peculiar to the economy and social situation.

It is hardly to be expected that all development practitioners should indulge in epistemology, but on the other hand the application of economics usually does involve an unspoken way of using knowledge. Chapters 3 and 4 showed that mainstream economics employs a modernist epistemology, and that the kind of economic development policy advocated under the Washington Consensus is no exception. This chapter has tried to show that raising methodological questions is useful when designing policy. Making the underlying perspective and methods explicit can help tailor policy toward practical outcomes, in line with development goals.

The CRP conceived of the economy as a closed system. The thinking behind the programme was non-reflexive, meaning that it was not grounded in the social situation in which it was to be applied and that its executors did not perform self-enquiry, turning the techniques of their analysis on themselves. Rather, the programme had an objectivist stance which precluded full input by Vanuatu nationals. Had the programme been reflexive, and largely nationally-owned, it would have been more likely to meet traditional demands and would have led to better policy. For example if local people had fully understood and owned the reform package they would probably not have agreed to pay for foreign consultants' salaries with a dollar-denominated loan worth a tenth of annual economic output.

The modernist credentials of the CRP were most evident in its foundationalist view of knowledge, its implicit appropriation of the label ‘science’ and its determinism. Problems here caused certain policies to react back on themselves in a feedback loop which undermined the very objectives being sought. Investment in the Public Service Commission weakened the efficiency of the public service. Quantifying the economy led to worse policymaking. Outside intervention in the economy made the task of future intervention harder. Finally, focusing on GDP as an end in itself worsened economic performance and threatened the attainment of national goals.

It is tempting to suggest that Vanuatu’s economy is beyond development; that the country faces such immense difficulties of size, vulnerability, distance from markets and capacity that perhaps it should be left to pursue its own traditional values without materialistic ‘Western’ intervention. The argument here, although in favour of particularism and attention to context where helpful, does not advocate such relativism. A reflexive view of economic policymaking suggests that there are benefits from engagement with the outside world and that developed countries have a responsibility toward less-advantaged nations. What distinguishes reflexivity from reflection is that there is a *two-way* inter-relation between subject and object rather than a one-way causality. The objectivism associated with modernist policy intervention should complement subjective local experience, with the two poles interacting to produce appropriate policy solutions. Economic development practice may have swung too far to the extreme of modernist universalism, but this does not require a resulting shift to the other side, where economics abandons struggling states to their own fate.

Certain universals would probably be included in any economic reform programme and endorsed by national policymakers, such as grants for improved education and health. Helping country inhabitants to change the economic structure in order to achieve local goals can result in better policy. Foreign staff can be used by national politicians and officials to avoid the blame for painful reforms. In Vanuatu there is a role for qualified, long-term technical consultants in bolstering government capacity, which suffers mostly as a result of the small population size and insufficient standards of education. As mentioned at the beginning, one of the main benefits of outside involvement is that overseas development personnel can help facilitate the process of learning from other countries. The various global development experiences, including certain specific features of the various successful East Asian countries, all hold grains of truth for Vanuatu.

Structural adjustment in Vanuatu actively reduced economic policy autonomy. Abandoning Vanuatu to fend for itself, however, would have resulted in a similar outcome – the kind of economic conservatism propagated by accepted wisdom, which suggests that globalisation inevitably forces small and less-developed countries to accept a smaller role for the state and to submit to the diktats of international capital.

An implication of the argument in this chapter is that the economy is not different to other spheres of social reality in somehow being beyond human agency. Indeed failing to realise the existence of agency can itself close down policy options. Economic interventions do make a difference, but it is up to the institutions and officials involved to decide in which direction policy should proceed and how much autonomy is subsequently available. The spectre of the straitjacket may seem inevitable, but this does not need to be so. Recognising the existence of reflexivity will lead to economic policies that mirror local needs and that maximise the benefits from engagement with the international economy.

The next chapter examines the taxonomy in the case of Singapore, which experienced a much more successful development process, and which retained an increasing degree of autonomy from the international development institutions.

Appendix 1: Summary of how the Comprehensive Reform Programme (CRP) in Vanuatu related to the 10 points of the Washington Consensus.

Washington Consensus (Williamson, 2004-5: 196)	**Vanuatu's CRP**
1. "Budget deficits should be small enough to be financed without recourse to the inflation tax."	Government expenditure averaged only 27% of GDP during the 1990s. This is about the same as the median level for all developing countries over the same period. On average the budget was exactly in balance from 1990 until 1997. In 1990 Vanuatu had one of the lowest ratios of government employees per capita among Pacific island economies, at three per one hundred country inhabitants. This compared with the Cook islands at 18.2, Tuvalu at eight and Fiji with six (ADB, 1996: 103). The ADB urged Vanuatu to cut public spending further, although in practice this did not happen.
2. "Public expenditure should be redirected from politically sensitive areas that receive more resources than their economic return can justify… toward neglected fields with high economic returns and the potential to improve income distribution…"[58]	Four of the original five objectives of the CRP related to this point. These were: redefining the role of the public sector; improving public sector efficiency; encouraging the private sector to lead growth; and improving social equity (Knapman and Saldahna, op. cit.: 177-184). Although these were the stated objectives, the results were less than satisfactory, as argued in chapter 6.
3. "Tax reform… so as to broaden the tax base and cut marginal tax rates."	Value-added tax was introduced under the CRP, with the explicit aim of broadening the tax base. It was also assumed that import duties would fall under regional trade agreements and World Trade Organisation (WTO) membership. Marginal tax rates did not fall, however. Given that the CRP (and the Washington Consensus) stated that its aim was to improve income distribution, it might have considered the introduction of income tax.
4. "Financial liberalisation,	Vanuatu, as a tax haven, was already financially

[58] In practice the Washington Consensus has been shown to have worsened inequality. See Killick (1995) and Zuckerman *et al*. (1991).

involving an ultimate objective of market-determined interest rates.”	liberal. Interest rates are in theory determined by the market, although the tiny size of the economy and the small number of banks, many of which are orientated almost exclusively toward the offshore sector, means that financial markets tend to be highly illiquid and dominated by the operations of the government and the Reserve Bank of Vanuatu.
5. “A unified exchange rate at a level sufficiently competitive to induce a rapid growth in nontraditional exports.”	The CRP did not induce any change in the exchange rate regime, nor did it advocate devaluation of the vatu. It did imply the possibility of growth in nontraditional exports, but without suggesting concrete policy measures to achieve this aim.
6. “Quantitative trade restrictions to be rapidly replaced by tariffs, which would be progressively reduced until a uniform low rate in the range of 10 to 20 per cent was achieved.”	This was a key aim of the CRP, although as shown in chapter 6, actual tariff reform was not strictly part of the CRP. Instead, regional trade agreements and WTO membership were eventually to lower most tariffs to around this range.
7. “Abolition of barriers impeding the entry of FDI”	The Vanuatu Investment Promotion Agency was established in 1998 and certain regulations impeding the entry of FDI, such as the ‘green letter’ under which the Minister for Immigration could expel foreigners, were abolished. The Minister of Finance was no longer responsible for vetting investment proposals.
8. “Privatisation of state enterprises”	A number of key business were corporatised or privatised, including the post office and airline. The gains from privatisation and corporatisation, however, were limited, since in such a small market most of the newly-privatised entities faced little competition, whilst regulation was near-absent.
9. “Abolition of regulations that impede the entry of new firms or restrict competition”	The CRP aimed to reduce the number of companies on the ‘reserved list’ of investments, which named certain areas in which foreign companies were prohibited from involvement. As shown in chapter 6, WTO membership was to have been directed towards the abolition of regulations impeding the entry of new firms. In particular, the schedule indicating Vanuatu’s commitments on services included opening up almost all sectors with few restrictions.

10. “The provision of secure property rights, especially to the informal sector.”	This was the one major area in which the CRP did not follow the Washington Consensus, although the issue of land ownership was discussed. Politicians considered land to be an area too sensitive for policy to changed, and freehold ownership is still prohibited.

Summary

The CRP followed seven out of the 10 points of the Washington Consensus. In the main areas – current account liberalisation, government expenditure and privatisation – the programme was a classical case of old-style structural adjustment. The key objectives were to reduce the role of government in the economy; to allow a bigger role for markets; and to increase international openness.

In three areas the CRP did not strictly follow the Washington Consensus, although this was partly because policy was already in line with what was demanded. On point 4, as a tax haven Vanuatu’s financial markets were already somewhat liberal, although this is not to suggest that they were highly developed or functional. Regarding point 5, the CRP did not change the exchange rate regime or suggest devaluation. The area in which the CRP directly contradicted the Washington Consensus was land ownership, which was so culturally sensitive that it constituted a bottom line beyond which politicians could not proceed. An area not mentioned in Williamson’s list is the speed of reform. The case of Vanuatu differed to many other structural adjustment packages in that it was slower. Instead of a ‘big bang’ the reform package lasted many years.

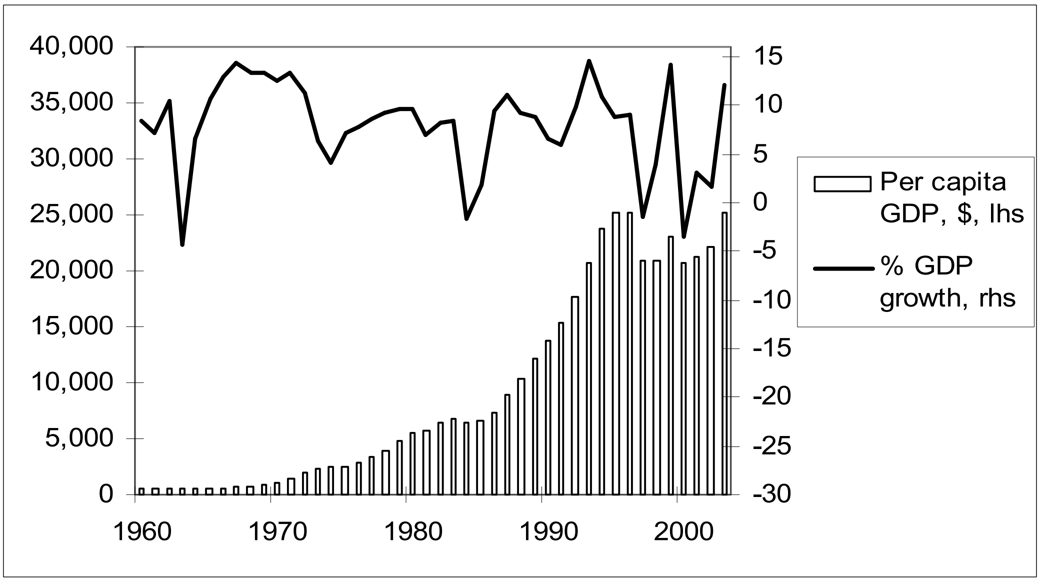
Chapter 6 argued that many of the measures of the CRP were inappropriate to Vanuatu’s specific situation, and that the CRP did not meet its own objectives. In particular government expenditure did not fall in the years after the CRP (partly because of the residual amount of spending necessary for running the civil service, as well as the significant additional debt burden); privatisation did not generate significant efficiency improvements; and a more liberal environment for FDI did not lead to an immediate upturn in incoming investment. As time goes on, the influence of the CRP appears to be waning, and the government is reverting to policies that more directly meet its requirements.

7. SINGAPORE: THE LIONIZED CITY

7.1 Introduction

Singapore (from the Malay words Singa Pura, meaning Lion City) is one of the most successful economic growth stories in history. GDP expanded at an annual average of 8% between 1960 and 2004, contracting in only four of those years and at times averaging double-digit levels for half a decade (Peebles and Wilson, 1996: 43; Ministry of Trade and Industry, 1998-2005). Growth in per capita income, shown in figure 7.1, placed Singapore among the top five developing countries during the two decades after it separated from the United Kingdom in 1959. By 2004 GDP per capita was US$25,191, among the richest 30 countries, having expanded tenfold in real terms since independence. Unemployment and inflation have been low and stable since the 1970s. Economic growth was so great that Lee Kuan Yew, Singapore's autocratic prime minister for the first 25 years and now 'Minister Mentor', titled the second volume of his memoirs "From Third World to First" (Lee, 2000).

Figure 7.1 Singapore GDP growth rate and US$ per capita GDP, 1960-2004



Sources: Peebles and Wilson (1996): 43; Ministry of Trade and Industry 1998-2005, www.singstat.gov.sg

Yet there is more to the story than numbers. The very fact that Singapore could retain the same prime minister for a quarter-century betrays the social and political dimensions of economic success. Several authors have argued that it is impossible to examine Singapore's economic growth without addressing the political and social situation. Castells (1988: 73) says that: "Singapore's development is, above anything else, a political process, decided upon and guided by a strong government determined to overcome its underdeveloped status in the international economy." Alten (1995: 230) and Peebles and Wilson (2002) echo this statement. Tremewan highlights the social control exercised by an authoritarian regime, writing that he is "critical of the dominant view of Singapore which abstracts the economy from the reality of concrete social relations" (Tremewan, 1994: 1).

The current chapter will, as in the previous chapter, and suggested by the taxonomy proposed in chapter 4, try to examine the social context of the economy. The chapter will examine how the taxonomy fits with Singapore's economic development process, and whether the Singapore government generally followed the kind of approach suggested by the taxonomy. I will consider a much longer period of development than in Vanuatu: from separation from the UK in 1959 until 2004. The reasons are twofold. Firstly, I did not work in the Singapore government, which meant that I gained a less detailed knowledge of how government worked, although I spent three years based in the country writing about business and economics from 1999 to 2001 (eg. see AsiaWise, 2001a; 2001b; Asiaweek, 2001). Secondly, the post-colonial era forms a natural period for the study of the development narrative, enabling a better comparison with the structural adjustment years in Vanuatu.

A secondary objective is to use the taxonomy to assess the Washington Consensus as a model for economic development. The previous chapter argued that Washington Consensus-type policies were applied unsuccessfully in Vanuatu. Here, I address the issue of whether Singapore followed Washington Consensus-style advice. If at all, how did Singapore move beyond the universalism offered by Washington and the particularism advocated by postmodern-type policies?

Debate over Singapore's economic success revolves around two general explanations: geography and policy. Some argue that the city-state's location on one of the world's busiest shipping lanes at the gateway to East Asia and the lack of dependence on agriculture made rapid economic growth likely (Huff, 1997). These kind of explanations can generally be labelled objectivist or related to structure. Other commentators, above all government ministers (Lee, 2000; Goh, 1995a, 1995b) concentrate more on the role played by proactive economic policymaking. These sort of explanations can be considered largely subjectivist in the sense defined in chapter 4, focusing on agency.

The structure of the current chapter will follow the taxonomy in chapter 4 and therefore the same general outline as chapter 6 on Vanuatu. This should shed light on the relationship between the objective and the subjective, and in turn geography and policy. First is a discussion of how the Singapore government examined the influence of external values and norms. The government explicitly assessed the extent of outside influence, ensuring that it was never in a financial situation which forced it to accept undesirable conditionalities. Section 7.3 shows how the government assessed the importance of local context. Singaporean leaders have emphasised the differences between what they term the 'Western' model and what they perceive as Singaporean values, institutions and behaviour. Section 7.4 examines the ways in which tools, concepts and policies affected themselves. The final section shows that there was an allowance for theory to be revised if it proves inadequate or as circumstances change. Schumpeterian ideas, and a response to the new growth theory, are replacing the developmentalist theoretical perspective.

7.2 The influence of external values and norms

7.2.1 The need for reform

Singapore became a self-governing province in 1959 following 140 years of British rule. Membership of the Malaysian Federation in 1963 ended two years later amid political tensions, bringing about full independence. At the time many thought that the tiny state was unviable, above all the Prime Minister (Lee, 2000: 25), who famously cried in public after the breakdown of relations with Kuala Lumpur. In 1965 the island had a per capita income of only US$1,500 and a population of 1.9 million (Singapore Department of Statistics, 1974: 1). Before land reclamation the main island and small surrounding ones had a land area of only about 600 km^2, slightly smaller than East Lothian in Scotland. Industrialisation was in its infancy and agriculture undeveloped. Singapore depended heavily on its status as an entrepôt and staple port for the trans-shipment of goods such as tin and rubber from neighbouring Malaysia. Unemployment was almost 14%, while labour unrest was frequent. The British defence presence comprised almost a fifth of economic output, and plans to pull back the military 'East of Suez' threatened not only to deprive the once-important East Asian colonial stronghold of vital income, but to leave it vulnerable to attack from hostile neighbours. Reform therefore seemed imperative to ensure survival.

Yet it is possible to overplay Singapore's economic vulnerability at this time and therefore to imagine that reform was more pressing that it truly was. While Lee talks of the limitations of having no hinterland, Sachs (2005) has highlighted the adaptability that comes of having no 'resource burden'. The near-absence of natural resources meant that the composition of exports was more easily influenced by government strategy. The economy of neighbouring Malaysia grew more slowly, partly because it is bigger and burdened with large rubber and palm oil sectors, which add less value than technologically-orientated industries.

Huff (1997) emphasises the continuity between Singapore's 140-year history as an entrepôt staple port and contemporary export-orientated growth. Singapore thrived on trade since its establishment as a colony by Sir Stamford Raffles in 1819. It lies southeast of the Malacca Straits through which any ship must pass on its journey east unless going through the Sunda Strait. The port was a convenient stopping point for the large markets of Indonesia, Malaysia and even Indochina. At independence trade was worth 230% of GDP, similar to the current proportion, and Sachs and Warner (1995) point out that Singapore is one of only eight developing countries to have been open to trade since independence. A boom in imports and exports over the subsequent decade would widen the trade deficit as Singapore imported the machinery, technology and raw materials necessary for development. Table 7.1 shows that in 1965 the balance of payments was sustainable for an economy of S$3.0 billion (US$500 million at the time).

Table 7.1 Balance of payments, 1965-95, million Singapore dollars

Item	1965	1975	1985	1995
A. Goods and services (net)	-101.2	-1,677.0	461.2	21,709.7
Balance of Merchandise trade	-759.8	-5,897.6	-6,223.5	-1,855.2
Balance on Services trade (net)	658.9	4,220.6	6,684.7	23,564.9
B. Transfer payments (net)	-48.9	-99.4	-469.0	-1,261.4
C. Capital account (net)	104.3	1,386.9	1,536.9	-3,465.9
D. Balancing item	31.6	1,361.4	1,412.6	-4,808.5
E. Overall Balance (A+B+C+D)	-11.8	971.9	2,941.7	12,173.9
F. Reserves (net)*	11.8	-971.9	-2,941.7	-12,173.9

* An increase in assets is indicated by a minus sign
Source: Singapore Department of Statistics, 1974-96

A goods trade deficit in 1965 worth 23% of GDP was largely balanced by a surplus on services trade. The overall current account deficit (A+B) was funded by net inflows to the banking sector (C), which was as yet undeveloped, dealing mainly with trade finance. Aid flows were insignificant. The only two years in which there was an overall balance of payments deficit were 1964 and 1965, except during the recession of 1986, reflecting the trade-orientated structure of the economy and the subsequent build-up of reserves. Although the absolute sums grew much larger in subsequent years, and the economy became much richer, the trade and capital-account deficits in 1965 were not historically the highest. The development of the financial sector by the mid-nineties resulted in a large net outflow of capital. One of the most notable features of table 7.1 is the S$23.5 billion balance on services trade by 1995. This is a result of the development of Singapore as services-orientated rather than a goods producer, and reflects the advantage of having no ‘resource burden’. It can be seen, in sum, that Singapore’s reasonably healthy balance of payments situation perhaps suggests that reform was less pressing than in other comparable nations at the time.

Another distinctive advantage of the Singaporean economy at independence was the high level of education amongst local administrators. The largely English-educated People’s Action Party (PAP) consisted mostly of moderate professionals who had hit a glass ceiling under colonialism. Lee, who studied Law at Cambridge University, and whom Margaret Thatcher liked to refer by his nickname ‘Harry’, had to learn Mandarin Chinese to talk to his constituents. A capable, technocratic administration, fluent in English, could deal with an international audience.

Singapore’s strategic importance to Britain and proximity to Malaya had meant that at independence it was well-run and prosperous relative to other newly-decolonised East Asian nations. Unlike elsewhere, there was little hurry or animosity during the handover. Britain only shut down its military bases in 1973. Although major obstacles had to be overcome, the economy was in a reasonable initial position, which would help the task of development. Reform was therefore not as pressing as in some other newly-independent countries.

7.7.2 The universals of development practice

From the start Singaporean administrators were keen to learn lessons from overseas. The role of the United Nations Development Programme (UNDP) is often overlooked. Singapore received US$27.2 million in technical assistance support from 1950, when UNDP assistance began, until 1985. Regular UN aid over the same period was US$2.9 million, while the government contributed a total of US$3.23 million (Chow *et al*., 1997: 15, 131). While these sums are not particularly large relative to the size of the economy, the co-operation programme included the services of 744 technical assistants and 2,029 fellowships, reflecting considerable training and knowledge transfer. The United Kingdom was the main source of funds. Other donors included Japan, Australia, Canada, New Zealand, Germany and France.

In 1960 a visiting UNDP team led by Dutchman Dr Albert Winsemius, who became a trusted adviser to Lee Kuan Yew until the 1980s, wrote a report entitled “A proposed industrialisation programme for the State of Singapore” (United Nations, 1961). This document formed the basis of early development strategy. Lee (2000: 67) says that he could not understand why Winsemius suggested keeping the statue of Raffles and defeating the then-popular Communist party. He would later realise that these moves were aimed at reinforcing international confidence in what was then an untested socialist government.

The UNDP urged Singapore to make foreign direct investment (FDI) a central plank of development, and it did indeed play a prominent role after the 1960s. Lee wanted to “create a First World oasis in a Third World region” (*ibid.*: 76) and to try to “leapfrog” other nations by attracting investment in new technologies. He says that he learnt about foreign business values during a sabbatical at Harvard University in 1968, when he had the opportunity to meet foreign business people potentially interested in investing in East Asia (*ibid.*: 73). From then on, FDI became a priority. Foreign investment boomed from the late 1960s, when GDP growth was at its highest. Singapore gained 11.8% of total FDI to developing countries between 1980 and 1984, the highest of any East Asian country. FDI averaged a quarter of gross fixed capital formation between 1980 and 2000, again higher than any other East Asian nation (Peebles and Wilson, 2000: 171). Foreign corporations were estimated to contribute up to a third of GDP by 2004, around double that of local companies.

Singaporean government ministers have suggested that they had no new formula for economic success. Goh Keng Swee, the first Finance Minister writes: "…our policies were not novel, innovative *or* path-breaking… The general policy line follows what had already been attempted in many developing countries. What was different was that perhaps our policies produced results. This could be because they were implemented more thoroughly, and with a high standard of integrity." (Goh, 1995b: 101) One of his successors, Hon Sui Sen said in his 1978 budget statement:

> In retrospect, I can fairly describe Singapore's evolution since 1960, when the UN team on Economic Development led by Dr Winsemius first studied us, as the prototype of economic development promoted by international institutions such as the World Bank, IMF and GATT. We have followed policies which developed countries have urged all developing countries to pursue, that is, to start with simple manufactures (which the developed countries helped by opening markets via GSP [Generalised system of preferences]) and then to upgrade our economic

skills and go on to more skill intensive manufacture (Cited in Chow, 1997: 19).[59]

The role played by universal policy advice carried a number of advantages. Lee Kuan Yew believed that international confidence was central to economic success (Lee, 2000: 87). He was keen to avoid the corruption that afflicted neighbouring countries, and paid high government salaries.[60] By accepting foreign advice, Lee could show that his was an internationalist administration committed to attracting investment unlike nationalistic and more inwardly-focused, newly-independent neighbours such as Malaysia and Indonesia. International confidence was doubly important given Singapore's reliance on trade.

FDI was valued as a source of technology transfer more than as a means of supporting the balance of payments. Foreign companies were urged to train workers in new techniques, particularly in electronics during the 1970s and early 1980s. With UNDP assistance the National University of Singapore was relocated from its old buildings at Bukit Timah to a new campus at Kent Ridge. Links between academia and business have always been encouraged. Singapore has sought to attract what it terms "foreign talent". Multinationals face few limits on the number of foreign employees, work permits are granted quickly, and taxes are set deliberately low to attract highly-skilled overseas workers, who help keep selected members of the local workforce at the forefront of global technological developments.

[59] It is worth noting that in the Washington Consensus era it is unlikely that the Bretton Woods institutions would advocate such an interventionist industrial policy or provide technical assistance for upgrading the manufacturing sector.

[60] In 2004, the president was paid approximately US$1.5 million a year

7.2.3 How Singapore followed its own path

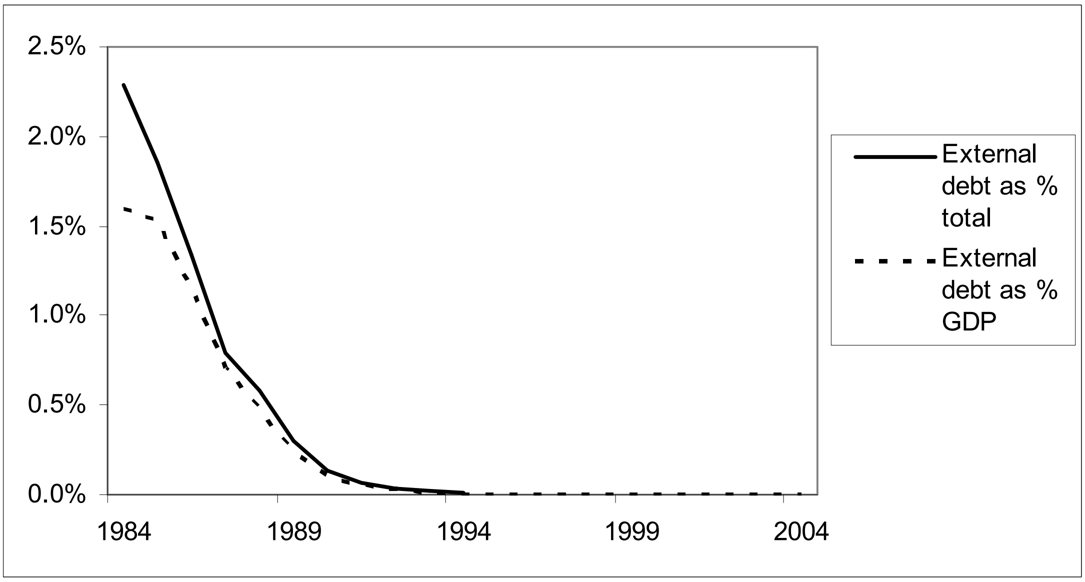
Yet for all the attempts to gain international confidence and attract FDI, Singapore followed a strongly self-determined development path. Paradoxically, doing what the outside world wanted did not mean surrendering control over the machinery of economic governance. Having achieved international confidence, Singapore retained the policy space in which to tailor development strategy to national circumstances. Hon's 1978 budget statement probably has diplomatic undertones – aiming, as always, to maintain international support. It also hints that Singapore followed only general suggestions, leaving the details to locals and only taking advice where appropriate. A statement from Alan Choe, former head of the Urban Redevelopment Authority, provides a telling contradiction of the outward show of conformity:

> The Singapore context, since the day of the present Government – from 1959 onwards – is one of self-reliance. You cannot turn to anybody, any experts outside, because our problems are uniquely our own. First, Singapore was totally manned by expatriates; then the Singapore Government came in and Singaporeanized the whole lot. The Government was able to demonstrate what it could do with untried, unproven Singaporeans. Obviously, this got to the heads of the technocrats and professionals who thought: 'Look. Here's something to be proud of. We can do it on our own' (Cited in Chow *et al*., 1997: 67).

This statement illustrates the importance of policy space, autonomy and self-belief, which allowed the development process to be customised to the national situation, in all probability making it more successful. The idea that Singapore must ‘go it alone’ in an often turbulent neighbourhood, retaining control over its domestic political and economic policy, has formed a central platform of national identity since independence.

Lee (2000) says that one of his government’s first aims was achieving the financial independence to secure sovereignty over policy. He did not often request aid and minimised any sources of external financial leverage. By the 1990s Singapore had the largest per capita foreign exchange reserves of any country, with the total reaching US$113 billion in 2004 (although large reserves are to be expected in such an open economy). Foreign borrowing, especially from international institutions, has been largely unnecessary since the 1980s and overseas debt has always been minimal. The available data, shown in figure 7.2, demonstrates that external debt comprised only 2.3% of GDP in 1984 and fell to zero by 1995. Loans from the Asian Development Bank were never more than half of either bilateral British loan aid or loans from the World Bank. After 1995 the government was able to finance its borrowing through access to the substantial domestic savings. Because of international confidence and low domestic interest rates, it has never faced high debt servicing costs.

Figure 7.2 Singapore external debt, 1984-2004



Source: Monetary Authority of Singapore

A belief in the importance of national self-reliance had strong roots. The ruling People's Action Party had a socialist anti-colonial background. Former president Devan Nair edited a book in 1976 entitled 'Socialism that Works: the Singapore Way'. Elsewhere, in 'A socialist economy that works', Former Finance Minster Goh Keng Swee writes: "Taking an overall view of Singapore's economic policy, we can see how radically it differed from the *laissez-faire* policies of the colonial era" (Goh, 1995b: 105). The state has a history of directing public expenditure toward favoured areas, including infrastructure and 'complementary goods' (Shin, 2005) that are not provided by the private sector. The government continues to 'pick winners' – in contrast to generally-accepted modern policy wisdom.

Institutions such as the right-wing Heritage Foundation continue to rank Singapore as one of the two 'most free' economies in the world,[61] (Heritage Foundation, 2007) relying amongst other things on the fact that at around 20% of

[61] The other one is Hong Kong

GDP the ratio of government expenditure to national income appears particularly low. Yet some commentators, such as Asher (1999), argue that proceeds from the lease of land, which is mostly government-owned, should be included in public revenues, bringing the total to 38.5% of GDP, among the highest in the world. Low corporate taxes are compensated partly by expensive 10-year car ownership licences known as 'Certificates of Entitlement' and high taxes on alcohol and tobacco. Peebles and Wilson (2002: 122-3) suggest that when taxes and proceeds from the lease of land are combined with large regular budget surpluses the overall 'take' from the population is high. The proceeds from a compulsory savings scheme known as the Central Provident Fund must legally be used to buy government bonds, significantly reducing the cost of public borrowing and further reducing the role of the market in private savings.

The government retains strong links with, or partly owns, many of the large government-linked companies (GLCs), that dominate the economy. In 2000 these included a 79.7% stake in Singapore Telecommunications, a 58.8% share in SembCorporation Industries, 53.8% of Singapore Airlines and 49% of Singapore National Printers Corporation. Estimates suggest that the number of GLCs peaked at 720 in 1994 before later falling to below 600 (Peebles and Wilson, 2000: 44). Government-linked corporations such as Temasek, a holding company, and Keppel Land, have invested significant sums overseas. Prior to corporatisation and privatisation government owned bigger stakes in the Development Bank of Singapore (which was partly privatised in the 1990s and was used to direct credit to desired areas), the Post Office Saving Bank, the Port Authority of Singapore and the Public Utilities Board. In addition the National Trades Union Council runs a powerful co-operative movement, which operates a supermarket chain, NTUC Fairprice. Policy in these areas has deviated heavily from the formula prescribed by the Washington Consensus.[62]

The state-led nature of the economy is not the result of ideological dogmatism. Singapore's authoritarian ruling party can be termed socialistic only in very specific macroeconomic terms, and then only until the 1980s, throughout courting foreign capital. Since independence the government has presided over an increase in inequality (Bhanoji Rao and Ramakrishnan, 1980), a clampdown on press freedom, a reduction in freedom of speech and other democratic freedoms (in the 2001 and 2006 general elections only two opposition members of parliament were elected out of 84), and a draconian justice system. Policy has always been authoritarian and orientated towards control, yet the government has acted pragmatically, pursuing whatever course of action it believes best serves the long-term economic interests of the nation. The over-riding objectives were not social but economic, tackled by technocrats who were ideologically constrained only by the desire to build wealth.

Former Finance Minister Goh perhaps sums up the Singaporean attitude to development: "The selection of Western models needs careful study, diligent application and intelligent adjustment" (cited in Chow *et al*, 1997: 113), and: "The book of rules tells you very little, and precedents borrowed from advanced countries have a nasty habit of coming apart in your hands" (Goh, 1995b: x).

7.3 The importance of local context

Self-consciously and deliberately, Singaporean economic policymakers took account of particular and subjective local features. Policymaking has long been

[62] See appendix 1. Some policies could even be called Keynesian., but the first Finance Minister, Goh Keng Swee, does not consider himself a follower of Keynes, giving credit to few economists later than Ricardo, apart from Arthur Lewis who gets half-marks (Goh, 1995b: x).

characterised by self-awareness. A monolithic state, unencumbered by dissent from an effective opposition, can reverse unsuccessful decisions without criticism.[63] An internationalist focus has put Singaporean successes and difficulties into perspective. Being small and potentially vulnerable reinforces the need for self-scrutiny, while being an island promotes cohesion. As shown below and in appendix 2, this combination of features led to policies that diverged from the Washington Consensus.

7.3.1 Differences in institutions

Peculiarities among three sets of institutions – housing, education and the law – influenced economic development. Accommodating a diverse and relatively poor population on a small island represented a particular challenge at independence. The government considers universal public housing as one of its biggest achievements. Up to 90% of Singaporeans live in public Housing Development Board (HDB) flats, which they buy on a 99-year leasehold agreement using a deposit from their Central Provident Fund account. Mortgages are guaranteed at 0.1% above the rate of interest. The ability to link housing with savings enables the government simultaneously to appear as a benefactor and to exercise social control. A raft of rules governs behaviour in HDB flats, and occupants can be ejected for such trivial misdemeanours as placing pot plants in dangerous places or dropping litter in communal areas. Tremewan (op. cit.: 45-73) shows that housing is allocated to fragment communities and manipulate the vote. A strict ethnic quota system, justified on the grounds of racial harmony, is designed to split up the often rebellious Malay community as well as to divide generations. Social engineering initially helped co-opt the unions, then assisted in quelling dissent and driving down wages. Constituencies which vote against the

[63] Outside commentators sometimes appear to believe that the Singaporean government is infallible. Section 7.4.1 highlights some of the investment and policy mistakes it has made since independence.

People's Action Party are denied housing upgrades (Lydgate, 2003), while the gerrymandering of electoral boundaries is frequent. The ability to exercise social control means the government is unlikely to reduce its influence over the housing system, and will tolerate minor microeconomic inefficiencies in the interests of maintaining social order.[64] Analyses such as the IMF country report by Cardarelli et. al. (2000), which advocates increasing the role of the market in public savings, have had little effect on government policy because they ignore the political backdrop and treat the economy as an abstract entity isolated from these unique social and political realities.

The education system presented a peculiar challenge at independence because of the diverse ethnic and linguistic composition of the population. Approximately three-quarters of people are Chinese, whose mother tongue is English or one of at least seven other dialects. Malays, who speak English and Malay, make up 15% of the population. Indians comprise around 6.5%, and mostly speak English and Tamil, but there are five other language-groups. This diversity has been used as ideological justification for conformity in schools and in public. Variously Singapore has had campaigns to 'speak English' and 'speak Mandarin'. Malays who object are told that they must adapt to global economic conditions. Tremawan (op. cit.: 74-108) argues that the primary and secondary education system, based on rote-learning, helps generate conformity, a situation which is compounded by compulsory two-year military service immediately after school or university. Social control helps the government to direct workers into areas of the economy that it deems desirable. As

[64] "I am often accused of interfering in the private lives of citizens. Yet, if I did not, had I not done that, we wouldn't be here today. And I say without the slightest remorse, that we wouldn't be here, we would not have made economic progress, if we had not intervened on very personal matters – who your neighbour is, how you live, the noise you make, how you spit, or what language you use. We decide what is right. Never mind what the people think. That's another problem" (From Lee Kuan Yew's speech at the 1986 National Day Rally, quoted in the Straits Times, 20 April 1987).

with the housing system, education policy aims to create a compliant workforce, treating people as factors of production.[65]

It is well-known that Singapore's legal system is strict. Several crimes, including drug smuggling, carry a mandatory death sentence. Offences from petty theft to violent crime are punishable by caning. Under the Internal Security Act anyone can be detained indefinitely without trial. The PAP abolished trial by jury shortly after independence. Less frequently discussed are the economic ends of the law. More than in many wealthy nations, the law is directed at building wealth rather than securing individual or social rights. Business and the law have long been closely related. For example Yong Pung How, who had not practiced law for 18 years, in the late 1980s gave up a successful business career to become Chief Justice (*ibid.*: 193). The PAP also uses the law to criminalise the opposition, in 2000 finally bankrupting JB Jeyaratnam, the only successful long-term opposition member of parliament, after a series of legal cases dating back 20 years. The intimate connection between executive and judiciary is justified on the grounds that the opposition is 'incompetent' and that economic policy is best-served by political continuity.

These three sets of institutions – housing, education and law – played a strong role in the economic development experience, and, however *morally* problematic they may seem, the Singaporean government's *economic* prosperity hinged partly on its ability to harness and accommodate these subjective institutional features. Had the government been less able to exercise policy autonomy in these areas, it would probably have been less successful in growing the economy.

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[65] Since early in Singapore's history, politicians have shown a desire to promote conformity and contempt for ordinary people. Lee Kuan Yew addressed a community centre meeting in 1967 thus: "We will be to blame if youngsters ten years from now become hooligans, ruffians and sluts. They can be trained to be otherwise. Even dogs can be trained as proved by the Police Training School where dogs, at a whistle, jump through a hoop, sit down or attack those who need to be attacked" (quoted in George, 1984: 194).

7.3.2 Differences in values

Singapore's government justifies its authoritarianism by suggesting that 'Asian' values are different to those in the liberal West and that Asians will tolerate the restriction of personal freedoms in return for more wealth. Lee Kuan Yew has argued that a regional Confucian ethic prioritises hard work, family ties, collectivism and personal responsibility. The East Asian economic boom lent weight to arguments that the region had a different way of doing things. Material prosperity, it was argued, outweighed secondary considerations of individuality and democracy. In a collection of essays titled "Can Asians Think?" Kishore Mahbubani, a career diplomat who in 2004 was serving as Singaporean ambassador to the United Nations, argues that "Asians and Westerners do think differently on some issues" (Mahbubani, 2004: 8). His arguments are given qualified support by Sheridan (1999) amongst others.

Whilst the debate is wide-ranging, it is possible to identify differences in values that have affected economic development. A common Singaporean attitude is that "I am prepared to put up with a few rules in order to stay wealthy". People say that they are reluctant to experiment with a new government in case it induces instability. The national attitude is often summed up in the word "Kiasu", dialect for "fear of being left behind". Family bonds are undoubtedly closer than in many Western countries, and despite the magnitude of the state savings system, the elderly remain dependent on subsequent generations.

Yet as with most cultural generalisations, examination of particular cases exposes problems. An increasingly independent-minded Singaporean youth expresses political apathy and cultural dissent as a mode of protest. Privately, many voice frustration with what they see as a heavy-handed, patriarchal regime. Younger people are increasingly reluctant to provide for their parents. The idea of an East Asian Confucianism is difficult to pin down in practice. Lee himself is arguably more British than Chinese. Southeast Asian cultures are largely Buddhist or Muslim rather than Confucian. Even supposed North Asian allies such as Taiwanese politicians have disavowed membership of any ‘Confucian’ community. Whilst Singaporean values are different, and they do have implications for economic development, they may be more pliable and multifaceted than political leaders suggest. It is doubtful whether these values extend far beyond the borders of Singapore.

7.3.3 Differences in behaviour

If there are differences in behaviour, they can be found in a willingness to tolerate authority for the sake of economic security. An ‘economic’ or developmentalist attitude pervades public discussion, and it is common to hear discussion of the state of the stock market or the trajectory of the economy. It is impossible to escape business life by, for example, retiring to the countryside. Singapore’s leaders probably exaggerate the regional tendency toward political volatility and the history of domestic riots, but the potential for fragmentation is perhaps more prominent than in many older, more diverse countries. High economic growth is considered necessary in order to avoid these potential pitfalls.

A number of commentators argue that this unique sense of solidarity allows Singapore to pursue interventionist policies that would not work elsewhere. The country is often referred to as ‘Singapore Inc’ – like a large company where the government takes the place of directors, large corporations operate like managers, and others act as the workforce (Peebles and Wilson, 2000; Low and Johnston, 2001). During times of crisis people may act against their own immediate interests for the benefit of the common good, preferring long-term stability to short-term economic gain. “In 1985, the workers accepted wage restraint, demonstrating once again a wiser, more mature and pragmatic work force placing national interest above that of self” (Chow et. al., 1997: 7). This statement sounds propagandist (and it is true that the government wields a powerful propaganda campaign through the state-owned media) but there is no question that workers accepted wage cuts during the recession. During the late-1990s Asian economic crisis, and at other times, the government lowered the compulsory contributions of companies to the Central Provident Fund. It is hard to imagine such self-sacrifice in many Western countries.

There is a certain validity in the argument that smallness and a tendency toward conformity enabled Singapore to pursue interventionist economic policies. Smallness, and the particular values, institutions and behaviour in this context enabled the government to act somewhat like a large corporation. But this argument cannot be wholly correct since social cohesion was partly constructed by government as a conscious economic strategy. The 1950s and 1960s were a time of social disunity, while Singapore remains ethnically diverse. Social cohesion must be seen not as mere fortunate circumstance, nor as deep-rooted, but as part of economic policy. Because it is an active policy, rather than being unique to Singapore, similar options must be available to other small countries.

The cohesive veneer hides a more fragile reality. Election results, for example, may give the appearance of up to three-quarters support for the economic policies of the ruling PAP, but opposition candidates do not stand in every constituency. The number of unopposed seats rose to almost four-fifths in the 2001 general election, meaning that most people could not vote. Discontent is thus difficult to gauge but may be higher than often supposed. Singaporeans are not more passive than people in any other culture, and dissent increasingly displays itself through the arts, lifestyle and public debate. As Tremawan (op. cit.) points out, when social control fails, the government is willing to step in with powerful legal tools. Again, this shows that cohesion is not necessarily natural, but is a result of government policies.

7.3.4 Summary

Had the government not been able to exercise policy autonomy, it would have been less able to accommodate or create subjective reality. External analyses of the economy (such as the 2000 IMF country report by Cardarelli et. al.) often overlook subjective features, treating the economy as an abstract entity isolated from particular social and political realities.

Peculiarities of institutions, values and behaviour played a prominent role in Singapore's economic development story. The government tried to maintain control over policies which related to these characteristics, including housing, education, law and the media. Generic macroeconomic policies, the like of which have been implemented during the Washington Consensus era, would have stripped Singapore of its ability to accommodate these specific, contextual, subjective features. An example is the important role played by the public housing system. Although an IMF report recommended that it should be opened up further to market forces, the government realised that social cohesion had wider-ranging macroeconomic implications than small microeconomic gains. The government, contrary to Washington Consensus-style recommendations, operates a significant public spending programme which enables it to maintain the particular brand of education and media policies that it believes best serve national economic interests. The government also believed more strongly than most that people were factors of production, used solely to make the economy grow, and individual liberties assumed secondary importance.

The three features discussed above are linked. For example collectivist values allow an authoritarian attitude towards public housing. An ‘economic’ mindset probably prompts some people to sacrifice legal freedoms which those in other countries would take for granted. Education and media policies contribute to the stability of the collectivist value system. Institutions, however, played a more prominent role in economic growth than different behavioural patterns, which in turn may have been more important than values. Considerable doubt surrounds the idea of any homogeneous ‘Asian’ set of values, and behavioural patterns, although important, are subject to change. Yet most commentators agree that the public housing system played an indispensable role in ensuring social and economic stability, while the unusual education and legal systems provided the raw materials and institutional backdrop for economic growth.

7.4 How economic tools, concepts and policies affected themselves

7.4.1 Industrial policy

As suggested in chapter 4, reflexivity partly means accepting that policies or policy actions can backfire. The third point of the taxonomy argued that economic tools and concepts can undermine themselves, and that successful development experiences recognise the possibility of this kind of reflexivity. As in Vanuatu, Singapore's economy experienced feedback mechanisms during its development.

Singapore's recent history is often written as an unmitigated economic success, albeit with reservations about the social and political context. I have suggested that it is difficult to separate society and politics from the economy, and plainly it would be possible to build a strong case against the authoritarianism of the ruling party (and many have, such as Tremawan, op. cit.; Alten, 1995; Jeyaratnam, 2003; Lydgate, 2003). But even by its own, technocratic, economic criteria the government has experienced a number of failures – particularly in industrial policy – which were a product of the very success that those same policies enjoyed in the first place. This is more than just pointing out that governments sometimes get things wrong; it is an awareness that policies are rarely infallible and can contain with them the seeds of their own demise. This is one reason why it is so dangerous simply to transplant apparently successful policies from one country to another. Policies which are apparently successful may not be valid forever; they may work only in a particular time and context; and they may work differently when combined with other policies.

In his autobiography Lee Kuan Yew (2000: 69) discusses the failure of early government investments. During the 1960s the Economic Development Board, set up on UNDP advice, invested in joint ventures in paper recycling with a businessman who had no experience in the industry. A similar lack of experience underlay the failure of a ceramics business. A joint venture in shipbuilding failed because Singapore had to import steel plates and engines. These failures were a consequence of the government's attempts to pick winners and to operate businesses itself; given limitations of knowledge, success could not be guaranteed. Early problems, however, did not deter it from adopting a strongly interventionist stance throughout the development period, with its successes outweighing the failures.

The government has suffered more recent business failures. In 1994 it entered into a joint venture worth US$20 billion to build a government-sponsored industrial park in Suzhou, west of Shanghai. After trumpeting the deal as an example of how consensual 'Asian' business values could lead to regional success, the Singaporean government was surprised to find that a rival business park on the other side of the city was generating unwanted competition. By 2001 sustained losses forced Singapore to cut its stake to 35% from an initial 65%.

Lee is quoted as saying: "We are not happy because we are not getting the kind of attention we were assured we would get – special attention. Indeed, what we are getting now is competition" (South China Morning Post, June 29, 1999). Subsequent experience supports evidence that the Chinese authorities displayed no favouritism, with Singapore scaling back its involvement in another government-sponsored zone in the Chinese city of Wuxi. Chinese business people were more interested in profits than any supposed common Asian ideals. Indeed observers suggest that business cultures clashed, with Singaporeans touting transparency and accountability, which in China are often regarded as 'Western' values.

The Singaporean government, or government-linked corporations, have often been unsuccessful in their foreign business operations. For instance Temasek, the government holding company, paid what was widely considered too high a price – in the biggest corporate deal in Thai history – for the conglomerate Shincorp in early 2006. Government-controlled Singapore Airlines bought a half-share in Virgin airlines just before a widespread downturn in the industry. Other ventures in telecoms and infrastructure have often been seen as attempts to use spare cash rather than as strategic investments, while doubts surround the historical returns achieved by the opaque Government Investment Corporation, which invests public funds abroad.

As Lee's quote above suggests, the Singaporean government's domestic business success is due at least in part to the restriction of competition, often as part of a conscious infant-industry strategy. In a foreign environment, with several competitors, success has proven more difficult. The government's industrial policy is not infallible, and although at home government-linked companies do face global competition, abroad they find it more difficult to operate without government support. This is not a general criticism of domestic industrial policy but implies that as the economy has become more open, and as Singapore seeks to invest more overseas, its government-linked corporations cannot expect the same favourable conditions as they find at home.

7.4.2 Macroeconomic policy

In the years following independence the government conducted an import substitution policy and protected infant industries with a view to export promotion, although tariffs were low because the economy was so dependent on trade. As an extension of this protectionism, large domestic conglomerates were built up using special incentives, including subsidies and tax breaks. The additional heavy presence of major transnational corporations in such a small economy further reduced domestic competition.[66] High savings rates, largely due to the compulsory savings scheme, enabled high rates of capital accumulation.

This economic structure produced high growth until the 1990s. Subsequently, however, shortcomings began to surface. A debate over 'total factor productivity' in

[66] "A rough rule of thumb used by the United States Embassy in its reports on Singapore is that about 60 per cent of the economy is represented by the public sector, 25 per cent by MNCs and so only 15 per cent by private businesses" (Peebles and Wilson, 1996: 32).

the mid-1990s highlighted the dependence of economic growth on the state mobilisation of savings. In an article entitled 'The Myth of Asia's Miracle' (1994), Paul Krugman used growth accounting work by Young (1992) and others in the new growth theory tradition to compare Singapore with the declining economy of the Soviet Union. The argument was that, as in command economies, current consumption was being sacrificed for future production, without corresponding improvements in labour or capital productivity. Given that this 'input-driven growth' was one-off, and such a massive increase in investment and education would be impossible to repeat, eventually GDP growth was likely to decline. Krugman and Young found that efficiency gains had been minimal throughout the recent history of the Asian 'tiger' economies. Many East Asian economies, and in particular Singapore, had simply been able to mobilise resources on a mass scale.

Krugman did not predict the Asian crisis, as has sometimes been claimed, and measurement problems with the growth accounting method have been exposed. But subsequent evidence provides qualified support to the total factor productivity argument. Table 7.2 shows that productivity growth slowed and became volatile during the 1990s, especially during the crisis. For most of the mid-1990s it grew slower than real wages, which declined and remained particularly low after 2000. On average from 1992-2003 average annual productivity growth was 2.96%, slightly below the average of 3.33% for wages.

Table 7.2 Percentage change in real wages and productivity, Singapore, 1992-2003

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Real average wage change, %	5.8	5.3	5.4	5.2	5.3	3.5	-0.1	2.8	5.3	0.1	0.4	1.0
Productivity growth, %	3.4	8.7	6.6	2.9	1.8	2.3	-3.6	7.3	5.4	-5.2	3.6	2.3

Source: Singapore Ministry of Manpower, 2003: 28

What was once a strength is now a weakness. The oligopolistic nature of the economy and high savings rates until the 1980s allowed resources to be directed into desired areas, particularly in heavy industry and export-orientated sectors. Subsequently the necessary lack of competition and government influence over the use of capital led to a decline in productivity, and a situation where productivity was unable to keep pace with wage growth. The entrenchment of the oligopolistic industrial structure is a major explanation for the levelling-off of GDP growth and per capita GDP seen since the late 1990s (shown in figure 7.1). Whilst most governments would envy a situation where average economic growth dropped from 8% to 5%, in developmentalist Singapore, where high economic and wage growth has become expected, such a situation poses more of a problem.

A further dimension of the feedback mechanism at work here is that the social control necessary to achieve development has resulted in a paucity of entrepreneurs. As shown in section 6.3.1 some commentators, such as Tremawan (op. cit.: 74-108), argue that the education system produces conformity rather than freedom of thought. Singaporean students perform very highly in technical subjects such as maths and engineering but relatively poorly in English and the arts. Subjects which require critical thinking and creativity, which are usually associated with entrepreneurship, have not been prioritised. The difficulty of generating domestic entrepreneurship further hampered the task of raising labour and capital productivity. The economy has become dependent on foreign workers, which the labour authorities work hard to attract, as shown in section 6.2.2, but on which the economy depends increasingly as a source of entrepreneurship and risk-taking.

7.4.3 Summary

Whilst often painted as an unstoppable march to prosperity, the Singaporean economic development story has featured a series of difficulties, many of them a product of the very processes that led to success in the first place. Industrial policy, on balance successful, suffered a handful of domestic failures and more serious problems abroad. These failures stemmed partly from the lack of domestic competition, which was necessary to shift resources into appropriate areas but not conducive to producing enterprises which could succeed overseas. The most telling example of Singaporean over-confidence (and also a refutation of the idea of Asian values) was the failure of the industrial park in Suzhou. Again, this kind of failure was the other side of the coin to success.

Macroeconomic policy has arguably experienced a more serious problem of internal contradiction. To some extent it has become a victim of its own success. The conditions which led to rapid industrial growth between the 1960s and 1980s – high savings, heavy incoming foreign investment and a state-run oligopoly – became entrenched, leading to a decline in the productivity of labour and capital and producing a situation where wage growth outstripped labour productivity growth. While this situation has not resulted in a major economic downturn, and cannot be considered a serious problem in the short term, it has implications for long-term economic growth which the Singaporean government is working to address. These issues present bigger problems than usual in a nation with a developmentalist popular mindset which has become accustomed to continuous high levels of economic growth. The next section will deal with the issue of economic transformation.

7.5 The revision of theory as circumstances changed

The final section of the taxonomy developed in chapter 4 suggested that successful development experiences involve the opportunity for self-revision. Rather than continually readjusting the same theory or model in the hope that it will eventually prove successful, or making minor changes from inside the same theoretical stance, wholesale theoretical revision can occur.

Following the Asian economic crisis which began in 1997 the Singapore government appeared to downplay its previously developmentalist theoretical perspective. Influenced by the US economic upturn and the stock-market boom of the 1990s, government officials began to talk of a transition to a more productivity-orientated, 'knowledge-based' economy. The new economic narrative was influenced by the new growth theory, with Paul Romer, one of its founders, visiting Singapore in 2000 to give a lecture and offer advice. This shift in theoretical perspective is an obvious response to the total factor productivity debate initiated by Young and Krugman a few years earlier. A further (contradictory) theoretical influence was the work of Schumpeter, which had also enjoyed a resurgence of popularity during the US economic upturn.

In 1998 *The Straits Times*, the government-owned newspaper, ran 41 stories about the 'new economy' compared with 12 the year before. The following year, use of the term in newspaper articles ran into the hundreds. Senior politicians began to use the term more and more often, with the following new year's message by the Prime Minister typical: "We have the potential to become a globally competitive economy within a decade. We must embrace change, ride the new economic wave, innovate and create new wealth. Doing the same things better will not be good enough" (*The Straits Times*, January 1, 2000). Instead of portraying the growth process as one of gradual development toward a more prosperous future, government officials used terms like 'creative destruction' to suggest that future economic growth was expected to be more volatile.

To some extent such language is not unusual for Singapore, being a reflection of the attitude under which government encourages workers to remain flexible in the interests of what is held to be the more important goal of general prosperity. The kind of sentiment expressed here is redolent of the 1985 wage cuts described earlier, and unemployment did indeed hit historic highs following 2000. The emphasis on innovation, volatility and a 'new economic wave', however, reflects a major shift in public dialogue. Manufacturing came to be seen as less important, and services more so – in particular areas which were perceived to add more value such as biomedical sciences. In 2000 the government built a science park known as 'Biopolis' on which it hoped to position Singapore as a regional biomedical hub. The government was reported to be spending S$5 billion (US$2.8 billion) between 2004 and 2009 on research in the life sciences (*The Straits Times*, January 4, 2006). The scientist that led the team behind 'Dolly the Sheep' was only one of many well-known international scientists to be attracted to Singapore by high wages, liberal laws and good working conditions. The government built a new university in the centre of the city and invested more heavily in existing higher education, with a view to providing the human resources needed for the ‘new economy’.

Some are sceptical about whether this apparent economic transition will work:

> Here again, we can see the traditional pattern of structural change. Public sector initiatives based on the advice of international advisors, a statutory board to provide the infrastructure, the public education system to try to guide Singaporeans into the relevant subjects and, no doubt, an international search for foreign scientists to fill the gap. This repeats the pattern that Alwyn Young hypothesized was the reason for Singapore’s poor TFP performance: pushing the economy into new fields without realizing the productivity gains of existing production (Peebles and Wilson, op. cit.: 265).

It is ironic that the government’s professed desire to move toward a more ‘competitive’ and ‘dynamic’ economy involves the very elements of control that underpinned existing economic arrangements. It is hard to see an administration so orientated toward control being able to relinquish the strict economic policy management that proved successful until recent years. Although an assessment at such an early stage is difficult, official rhetoric may be different to reality. The national savings rate remains high, at 47% of GDP in 2005 compared with 40% four years earlier. The services sector accounted for 63% of GDP in 2005, little different to the previous five years. Government reports claim that an increasing proportion of national output is generated by the biomedical sciences sector, but this is no indication of whether the sector is improving productivity. Managers at some of the major pharmaceutical companies suggest that their Singaporean operations focus only partly on research and development, and that they continue to manufacture low value-adding items such as pills. The attractions of the country do not differ markedly from a decade ago, and include the high quality of infrastructure, political stability, good shipping links and quality of life.

Although the economic transition will not inevitably succeed, and official rhetoric may be clouding the real picture, there is little question that the administration must remain adaptable, because the economy is so small and open. The government is clearly and self-consciously attempting to remould the economy. It is able to do this because it has retained control over important policy levers, such as education and the provision of infrastructure, and it can exercise considerable influence over the destination of national savings. In the government's efforts to remake the economy it is able to take into account subjective national characteristics, including the institutional peculiarities discussed earlier. Such control is more easily achieved in a small state than a large one, and undoubtedly the often undemocratic nature of the political system makes the task easier.[67]

Whilst the implications of the quote above from Peebles and Wilson might be that Singapore should try to realise the productivity gains of existing production and not change its theoretical perspective or economic structure, in reality adaptability is an asset rather than a burden. Singapore's rapid economic growth has been due partly to its ability to remain flexible and not to become too embedded in one theoretical economic tradition. In the early stages of development finance ministers professed

[67] This raises interesting questions about the kind of political state necessary for economic development, but which are not discussed here.

socialist beliefs; subsequently the growth process became more developmentalist; latterly, I have argued, the policy narrative could be described as being more influenced by the new growth theory and Schumpeterian-type ideas. It is possible to talk of the stages in Singapore's growth story in Kuhnian 'paradigmatic' terms. This suggests that a plurality of theoretical perspectives, often overlapping and contradictory, have been conducive to economic growth.

7.6 Conclusion

The lionization of Singapore lies in its portrayal either as a development aberration which featured such special geographic, historical and cultural endowments that it holds no lessons for other countries; or as a heroic progression toward prosperity, with infallible technocrats at the helm. In reality neither view fully captures the development story. Its spectacular economic growth can be explained both by objective geography and history *and* by subjective behaviour. The important point is that agency and structure are linked, in a manner suggested by Bourdieu. Whilst geography and history (which can be considered structural features) did matter, the government was able to assess how much they mattered, and consciously held on to the policy levers (which can be considered agential) that enabled it to carry out complementary policies to take account of national, subjective realities. Lucky endowments helped keep economic policymaking successful, but economic policymaking helped improve upon those initial lucky endowments.

Outside advisers with little knowledge of the domestic context could probably have suggested – and sometimes did suggest – policies which worked. Yet natural advantages could easily have been squandered. Government policymakers, who frequently shunned received economic wisdom, can take considerable credit for subsequent economic growth. In the years after independence good decision-making played an increasing role, so that politics collaborated with economics. In a sense Singapore contradicts the early determinism of early development professionals criticised by Arthur Lewis: "In 1950… economists and policy makers were sceptical of the capacity of LDCs to grow rapidly because of inappropriate attitudes, institutions or climates. The sun was thought to be too hot for hard work, or the people too spendthrift, the government too corrupt, the fertility rate too high, the religion too other worldly, and so on" (W. Arthur Lewis, Nobel Lecture, quoted in Singh, 1994).

How much did Singapore's development fit with the taxonomy proposed in chapter 4? First, the government explicitly examined the influence of external values and norms. One of the key principles of Lee Kuan Yew's project was to win international confidence. To this extent he followed certain international policy universals. The role of outside advisors in Singapore's development is often ignored, but the UNDP was involved in key early decisions, such as the creation of the Economic Development Board. Attractiveness to the outside world enabled Singapore to benefit from substantial incoming foreign direct investment.

The government won international confidence partly in order to give itself the space to carry out particular policies that might otherwise have contradicted foreign advice. Singapore followed its own path, maintaining a prominent role for the state that contradicts the Washington Consensus.[68] The public sector continues to account for over half of GDP; the government still 'picks winners'; and public housing is provided by the state. A self-consciously autonomous mindset runs through

[68] See appendix 2

government thinking, and the national attitude is that Singapore should ‘go it alone’ in an often turbulent region.

Point two of the taxonomy, concerning an implicit assessment of the extent to which local context is important, has particular relevance in Singapore. The government retained policy autonomy because it wanted to accommodate peculiar national characteristics, including institutions, values and behaviour – and in some cases to shape these characteristics. Education, the law and public housing were all geared toward economic growth, while values and behaviour helped condition the workforce to contribute to economic growth. Without the policy autonomy to take account of these subjective national features, the government would have been much less successful in growing the economy.

Yet certain failures stand out. These failures were often a product of early economic success, and thus constitute reflexive feedback mechanisms that may have been unavoidable but which pose future problems. Industrial policy, whilst highly successful at home, led to difficulties for Singaporean companies abroad. Macroeconomic policy faced the criticism that it resulted mainly toward factor accumulation rather than productivity growth, and on average between 1992 and 2003 labour productivity growth failed to match wage growth. To some extent Singaporean business ventures abroad were a victim of domestic economic success.

The degree to which the government recognised the possibility that economic tools and concepts can undermine themselves is questionable. There is thus only partial support for this point of the taxonomy. But partly in acknowledgement of its shortcomings, and partly in response to changes in the international economy, the government changed the theoretical emphasis of its growth narrative, and began to talk of a ‘new economy’, adopting Schumpeterian terminology and responding to the criticisms levelled by certain critics. It is perhaps too early to tell whether the resulting public emphasis on flexibility, volatility and openness is yielding results. The People's Action Party may be unable to relinquish the tight grip it has held over economic policy and politics since independence, and according to Wilson and Young's argument productivity gains from the existing economic structure remain to be realised. But some control is still required in order to carry out the economic transition, and changes in the world economy required a response from small and open Singapore, which has always prospered because it is adaptable. This suggests that point four, an allowance for theory to be revised if it proves inadequate, has at least some relevance.

Throughout I have used words like 'prosperity' and 'success', focusing largely on the aggregate *economic* end results. This is justified because of Singapore's overwhelming orientation toward economic, rather than social or political development. But lower income-earners became poorer during the 1990s and early into the next decade. Wages for the worst-off are low compared with living costs. Even for the more affluent, strong reasons exist to question the benefits of more wealth when the costs are political authoritarianism, an unfree press, conformism in education and a draconian legal system. It would be easy to argue that Singaporeans are different; that they value wealth over freedom. As I have suggested, not every Singaporean thinks like this. It is difficult to know, when the electoral system is rigged in favour of the ruling party and public dissent only selectively and grudgingly tolerated.

Just as national perceptions of the economy depend on values and social influences, then so do foreign perceptions. Both outsider and insider views are essential in any final assessment of the development story. But at least from one perspective, if the price of prosperity is political repression and enforced conformity, then perhaps Singapore's economic growth has not been such a miracle after all.

The next chapter ties together the discussion of Vanuatu and Singapore, drawing some tentative conclusions from a comparison of the two countries and making some methodological points about the nature of comparison.

Appendix 2: Summary of how Singaporean development policies relate to the 10 points of the Washington Consensus.

Washington Consensus (Williamson, 2004-5: 196)	**Singapore**
1. "Budget deficits should be small enough to be financed without recourse to the inflation tax."	Budget deficits are rare, and the government has run an average surplus of 4.3% of GDP since independence. Government expenditure is limited to only around 20% of GDP while inflation has been consistently low. Asher (1999), however, argues that proceeds from the lease of land, which is mostly government-owned, should be included in public revenues, bringing the total to 38.5% of GDP. Peebles and Wilson (2002: 122-3) suggest that combined with the high regular budget surpluses, this amounts to a high 'take' from the population. It is therefore a restriction of 'economic freedom' as measured by organisations such as the Heritage Foundation, which regularly ranks Singapore among the two freest economies in the world[69]. The proceeds from a compulsory savings scheme known as the Central Provident Fund legally must be used to buy government bonds, significantly reducing the cost of public borrowing and further reducing the role of the market in private savings.
2. "Public expenditure should be redirected from politically sensitive areas that receive more resources than their economic return can justify… toward neglected fields with high economic returns and the potential to improve income distribution…"	The government has a history of directing public expenditure toward areas that it deems desirable. In most cases the economic returns have justified this proactive stance. In a 1975 speech entitled 'Socialism in Singapore' Goh Keng Swee, Singapore's first Finance Minister, said that: "The government's direct effort in promoting industrial growth is substantial… the industries initiated by government effort was [sic] as large as the *entire* sum of industries existing when we took office [in 1959]" (Goh, 1995a: 105-6). Although data on income distribution are insufficient, little attempt appears to have been made to improve equality through public expenditure on areas with high economic returns.

[69] It should be noted that 'economic freedom' is an ideological notion which has little grounding in theory. The Heritage Foundation is a right-wing American think-tank funded by private donations.

	According to Pugh (1989), absolute poverty had increased to 35% by the late 1980s from around a quarter of the population 20 years earlier. Peebles and Wilson (2002) show that the Gini coefficient increased (showing greater inequality) throughout the 1990s, while the incomes of the worst-off fell in absolute terms.
3. "Tax reform… so as to broaden the tax base and cut marginal tax rates."	Only around a third of the labour force and a quarter of companies pay taxes. A Goods and Services tax of 3% was introduced in 1994 but it has not since been increased and direct tax rates are among the lowest in the world. The government adjusts income taxes according to economic conditions, although the general trend has been for indirect taxes to comprise a larger proportion of public revenues.
4. "Financial liberalisation, involving an ultimate objective of market-determined interest rates."	The government has progressively liberalised financial markets since the 1980s and interest rates are largely market-determined. But these moves were gradual and occurred only after the economy had reached a certain stage of development. The domestic bond market remains relatively undeveloped, largely because of forced savings and the state-organised mortgage system.
5. "A unified exchange rate at a level sufficiently competitive to induce a rapid growth in nontraditional exports."	A currency board operated until the Singapore dollar floated in 1973. The currency has since been managed through central-bank intervention and taxes on interest earned on foreign holdings. There is no question that Singapore has pursued export-led growth, although the nominal and real exchange rates have appreciated over recent decades and some studies suggest that the Singapore dollar has been consistently overvalued.
6. "Quantitative trade restrictions to be rapidly replaced by tariffs, which would be progressively reduced until a uniform low rate in the range of 10 to 20 per cent was achieved."	The government pursued import substitution prior to independence and an infant-industry policy aimed at export promotion in subsequent years, although it imposed strict deadlines for the end of protection and import tariffs are now mostly close to zero. Quantitative restrictions have played little role in trade policy.
7. "Abolition of barriers impeding the entry of FDI"	Singapore has made attracting inward FDI a central plank of economic policy since independence. Between 1980 and 2000 FDI averaged around 25% of gross fixed capital

	formation, higher than any other East Asian economy.
8. “Privatisation of state enterprises”	Privatisation began in 1985 with the sale of small- to medium-sized stakes in a number of government-linked corporations (GLCs). However the boundary between public and private often remains blurred, with senior government officials continuing to run major GLCs and statutory boards. Estimates of the share of GDP contributed by GLCs range from 45% to 55% (Peebles and Wilson, 1996: 32).
9. “Abolition of regulations that impede the entry of new firms or restrict competition”	Few regulations actively impede the entry of new firms. But the IMF considers local private companies, which are estimated to contribute only around 15% of GDP, to be inefficient and small largely because they cannot compete in the oligopolistic market structure created by GLCs and multinational corporations (Cardarelli *et al*, 2000). Competition and the entry of new local firms are, in effect, restricted.
10. “The provision of secure property rights, especially to the informal sector.”	Whilst most companies are guaranteed secure leasehold title and the government actively seeks to reassure foreign investors, the Land Acquisition Act (1966) allows the expropriation of private land. Using this law alongside the Planning Act (1970) and the Housing Development Board legislation, the government increased its land ownership from 26.1% of land area in 1968, to 67% in 1980 and 75% in 1985. (Lim, L., 1989: 185; Wong and Ooi, 1989: 791) The government still owns most land. Tremawan (op. cit.: 53) points out that the government specifically prevented ordinary people from buying land.

Summary

Singapore partly followed policies that would be suggested by the Washington Consensus. On points 3, 4 and 7 – tax reform, financial liberalisation and FDI – the government acted as liberally as the Washington Consensus would have prescribed. Regarding points 1, 5, 6 and 9 – budget deficits, the exchange rate, trade policy and regulations on entry – the evidence is mixed. Budget surpluses can lead to just as much crowding out as deficits. The exchange rate was floated only in 1973, after the early stages of development; it remains actively managed and exporters often complain that the currency is overvalued. A protectionist trade policy in the early stages encouraged import substitution then export promotion. Inefficient local firms have always found it difficult to compete with larger foreign and government-linked corporations.

Regarding points 2, 8 and 10 – public spending, privatisation and property rights – the government pursued policies which were directly opposed to the Washington Consensus. It spent heavily in areas that it deemed appropriate, 'picking winners'; it retains strong links with, or partly owns, many of the large conglomerates that dominate the domestic economy; and although it makes a point of guaranteeing leasehold for foreign companies it has used legal means to progressively expropriate land.

In sum, for seven points out of 10 Singapore deviated from the Washington Consensus recipe. As with many countries, it has proven impossible to apply a fixed formula, and few points can be answered with a simple 'yes' or 'no'. Even if markets play a prominent role, they do so in particular ways, often accompanied by government involvement. At the risk of imputing beliefs to government that it does not truly hold, it is possible to see that the government distinguished between competition and ownership, promoting international competition yet seeing private ownership as unnecessary as long as companies acted in a profit-orientated manner.

In the early stages of development Singapore considered itself a socialist system under which the government owned the largest share of the means of production. While the Washington Consensus has sought to downplay government's abilities, the Singapore state has continued to maintain a large, if unconventional role, seeking to harness the benefits of competition yet continuing to provide complementary goods (Shin, 2005), build infrastructure and ‘pick winners’.

8. COMPARISONS

8.1 Introduction

Having examined the taxonomy using two case studies, both of which provided some evidence in its favour, I now compare the experiences of Vanuatu and Singapore in order to establish whether any lessons can be learnt, and if so, what they are. As mentioned in the introduction and chapter 5, I am comparing Singapore and Vanuatu because I lived and worked in them for three years and two years respectively and consider myself to have some degree of subjective knowledge about each. If postmodern relativism is to be avoided, it is important to try to establish lessons, however limited they may be.

Hopefully the use of comparative case-studies has produced some interesting and surprising findings; for as Lawson suggests in *Reorienting Economics,* contrastive explanation is capable of producing valid results that may be provisionally true without using the kind of methods more appropriate to the natural sciences.

This chapter first discusses what sort of features might usefully be compared between Vanuatu and Singapore. After this comes a comparison of certain selected aspects of the development process in the each country, and finally a tentative attempt is made to draw lessons from the two development experiences.

8.2 A comparison of Singapore and Vanuatu

The two countries are so different that care must be taken with any comparison. Wealth is the most obvious point of contrast: it might be argued that discussing an economy with a GDP of US$120 billion alongside one of US$300 million is not meaningful, and that a wealth-per-person differential of 25 times is too great for useful comparison. Geographical location is another important factor: one of Vanuatu's major economic difficulties is the irregularity and high cost of international transport. Few countries are more favourably located than Singapore. A further major variation is economic vulnerability: Vanuatu is among the world's most vulnerable economies, while Singapore is reasonably secure. Education levels, ethnic composition and working habits in the two countries are also highly dissimilar.

Yet there are certain important resemblances. Both are recently independent British colonies and tropical island economies. Both can be classified as having a small population, although Singaporeans outnumber ni-Vanuatu by 20:1. Macroeconomic policy is similar in a number of areas. Each country enjoyed generally good fiscal management. Neither experienced significant inflation and their central banks were reasonably well-run. Unemployment was mostly not high in either country, although for different reasons. It is possible to argue that smallness and being islands created the opportunity in both countries for autonomous and centralised economic decision-making. Most importantly, Singapore can be considered a successful example of economic development that holds certain lessons for some other developing countries.

Following is a short comparison of certain pertinent features of policy in the two countries using the main points of the taxonomy in chapter 4.

8.2.1 The influence of external values and norms

(i) The need for reform

In neither country was reform unnecessary, and nor was reform initiated entirely externally. In Vanuatu, however, change was more urgent and the outside institution took a greater role. Singapore was able to conduct its own reforms partly because it started with better endowments. It had an educated workforce and a strong tradition of trade and commerce, whilst independence proceeded relatively smoothly and with little animosity. These advantages were not present in Vanuatu, which suffered from low levels of education, a lack of a commercial tradition – the majority of its inhabitants are still subsistence farmers – and a relatively hurried transition to independence.

In 1997 Vanuatu's government was volatile and functioning poorly. Many parts of the civil service were also underperforming. This situation compounded the need for reform in a way that never existed in Singapore, which can be considered highly technocratic (Barr, 2006).

Balance of payments problems formed another key reason why reform was more urgent in late-1990s Vanuatu than in post-independence Singapore. Vanuatu had suffered a structural trade deficit since independence, while Singapore enjoyed flexibility and a positive balance of payments position. Vanuatu's exports were limited and volatile, and it depended heavily on aid. Singapore, partly because of its location, exported a variety of products and services and received only a limited amount of aid during the years after independence.

The greater initial need for reform in Vanuatu meant that it negotiated external reform from a weaker position and was compelled to accept generic, outside reforms. This meant that policies were less appropriate to the national context. The lesser need for reform in Singapore, the continuing self-governance and the absence of crises enabled the government to retain autonomy over economic policy, making it more relevant to domestic circumstances.

(ii) The costs and benefits of universalism

The benefits of a universal approach to economic policy varied between the two countries. In the case of Vanuatu, 'governance' improved slightly after the CRP led to the introduction of a free press, made the government more accountable and reduced nepotism. Financial management also improved, while certain statistics were collected and analysed better. One of the key benefits of outside intervention was that it enabled the government to avoid the blame for unpopular decisions.

In Singapore, the act of conforming to policy universals carried the principal benefit of improving international confidence in a newly-independent country with a government that considered itself socialist. Acting partly on UNDP advice, Singapore based its investment policy around attracting FDI, mainly to benefit from technology transfer but also as a source of capital, with Singapore gaining more FDI as a proportion of gross fixed capital formation than any other East Asian nation from 1980 to 2000. Having established outside confidence, Singapore proceeded to pursue many policies which were contrary to the Washington Consensus and which contradicted the kind of advice promoted internationally. Chapter 7 argued that one of the ingredients of Singapore's success was that it managed to cope with outside pressures for standard reforms, adding to its ability to tailor policy to domestic circumstances. Rapid economic growth further helped the government to operate independently of outside advice. Universalism in economic policy was therefore not a serious problem for Singapore.

Universal policy prescriptions created problems for Vanuatu, which was much more vulnerable, poor and dependent on aid. The Comprehensive Reform Programme was so laissez-faire that there appear to have been doubts about the effectiveness of *any* economic policy. This situation is profoundly different to Singapore, where the state assumed a prominent role, and where many of the recommendations of the Washington Consensus were ignored. The Vanuatu CRP focused excessively on specific institutional reform and governance, assuming that markets were so effective that they would solve most other problems. Unhelpful and misleading comparisons with East Asia led to an attempt to liberalise trade on a standardised basis, instead of attending to Vanuatu's particular situation. Corporatisation and privatisation proceeded too quickly, depriving the government of revenue and leaving it vastly more indebted than before the programme began. Singapore, on the other hand, was able to remain relatively free of debt and to pay off its loans to international institutions at an early stage.

8.2.2 The importance of local context

Vanuatu's government, because it was in a more vulnerable position and had less policy autonomy, was obliged largely to ignore local subjective circumstances. These included the unusual tax structure, in which 40% of government revenue came from tariffs; the need for flexibility in trade policy; the cultural importance of land;

and the role of money. In particular the absence of a commercial tradition and the unusual social role played by money meant that markets did not quickly assume functions previously performed by government. When government activity reduced, so did economic activity. The outside practitioners of the CRP, many of whom were short-term consultants, were free of any perspective which might have been considered self-reflexive. They therefore came under criticism. Rather than lay all blame at the feet of the Asian Development Bank, it is clear that the Vanuatu government did not initially devote much time to an assessment of the importance of local context, although this may have been because the political situation was particularly volatile and the civil service in a weakened position.

The case of Singapore was very different. The government consciously retained policy autonomy and could therefore take account of peculiar national characteristics. They included housing, education and the law, as well as a tendency to value material progress and to conform. In some cases the government shaped the outcome of these national characteristics. Whilst doubts have been raised about the 'Asian values' thesis, the government was at pains to promote economic growth by creating a malleable and cohesive workforce. The Singaporean state continues to shape policy toward the domestic context, which explains some of its economic success. There is therefore a link between this point and point four of the taxonomy, which suggests a revision of the theoretical perspective as appropriate. Retaining policy agency enabled the government to shift its overall stance so that it remained relevant to the existing economic situation.

8.2.3 How tools, concepts and policies affected themselves

Singapore's government was informed enough and exercised sufficient authority over companies and the workforce for industrial policy to be effective. In particular the government could put in place credible deadlines for the ending of infant-industry protection. These advantages were not present in Vanuatu, which gained independence at a later stage, and where a volatile political situation and weak administrative capacity meant that a small number of inefficient factories continued to receive major protection from government as late as 2004. In such a small country, with such high transport costs, infant-industry protection was always going to be a more precarious enterprise.

Singapore experienced a number of inevitable problems with industrial policy; problems that were a product of the very success that such policies delivered. Early government-run companies failed, while foreign ventures experienced more serious problems. But these failures were a necessary by-product of the generally successful interventionist industrial policy that operated at home. Macroeconomic policy in Singapore also featured a problem of internal contradiction, in that the high savings rates, high incoming FDI and state-run oligopoly necessary for growth became entrenched, reducing productivity over the long-term and probably lowering overall economic growth.

The reflexive feedback mechanisms at work in Vanuatu resulted largely from the structural adjustment programme, and proved more damaging. Public service reforms worsened the problem of institutional interference that they were aimed at solving. Quantifying the economy led to confusion and possibly worse policymaking.

Trust in outside agencies declined. Making GDP the sole end of policy produced a reactionary body of local anti-development thinking.

Drawing attention to these reflexive feedback mechanisms shows not just that the policies had flaws; the discussion is intended to reinforce the idea that single policies aimed at curing all problems simultaneously tend to backfire, that policies must be amended to national contexts, and that policy recommendations are often partly self-defeating. Many parts of social reality affect themselves, and the relationship between entities in an economic system is not only one of cause-and-effect. Reflexivity means that entities such as policies impact upon themselves.

8.2.4 The revision of theory as circumstances changed

Because the Singaporean government remained adaptable and in control of overall strategy, it could alter the theoretical perspective through which it formulated policy. After the Asian crisis in 1997, Schumpeterian ideas began to inform public discussion. Another influence was the new growth theory which originates with Paul Romer, and which underpinned the work of Krugman, Young and others in the total factor productivity debate. It is too early to say whether this change has resulted in successful policy, and a considerable amount of cliché and empty rhetoric clouds the picture. But had the government preserved its old way of thinking, it is unlikely that the economy would have continued growing as quickly as it did.

Vanuatu suffered unnecessary restrictions on policy. The government was allowed little room to influence the theoretical perspective under which reform took place, still less the opportunity to change theory when it became clear that the original CRP was not working. This is not to suggest that an articulated or cohesive policy vision existed on which politicians planned to base future economic policy decisions, but that the international context and the CRP made the emergence of such a coherent vision less likely. Attempts to liberalise trade according to a generic plan threatened to drastically weaken government finances. A burgeoning public debt stock and aid conditionality further restricted government's room to manoeuvre, while instability in the public service at least temporarily weakened government capacity.

If agency is an important part of reflexivity, then on an economic path that is informed by reflexivity, governments must be left free to alter their theoretical perspectives. As suggested in chapters 4 to 7, this has become increasingly difficult under the Washington Consensus, and some commentators actually suggest that reducing flexibility can improve economic policy. Dani Rodrik (Rodrik, 2002b: 15), amongst others, has shown this view to be mistaken. Denying governments access to policy tools such as changing public spending or to alter tariffs makes it more difficult to adapt during times of crisis or changes in the international environment. It is untrue that globalisation necessitates tight fiscal policy, since many small states, such as Singapore, run substantial counter-cyclical spending programmes. A non-positivist approach to knowledge implies that the implicit methodology of current practice in development economics is not final. States must be allowed to pursue policies that derive from an evolving theoretical path. Future policies and theoretical perspectives remain to be discovered.

8.3 Lessons

Singapore is neither in a unique and incomparable situation that holds no lessons for other countries, nor is it a model that must be copied identically. Few other developing countries have enjoyed such initial advantages, and as far as Singapore is a 'model' for development, it is one which must be adapted according to circumstances. Yet certain lessons can still be learnt.

Vanuatu is sometimes held to be so small and isolated that few lessons can be learnt from other countries. This is also untrue, even if its unique characteristics must be taken into account. Limited, thoughtful comparability is always possible. This recognition derives from the vision of reflexivity as a step beyond either the modernist conception of science as a progressive, rationalistic endeavour which gradually unearths new discoveries, or the postmodern view which allows for no common foundations to truth, and under which history cannot progress.

8.3.1 Lessons from Singapore for Vanuatu

One of the most important findings from the two case studies is that policy space is essential, including the need for outside agencies to incorporate into any programme of economic assistance room for policies to be revised significantly at a future date. Just as someone may not appear allergic to dairy products for years, and the allergy may build up over time before suddenly producing a violent reaction, the impact of policies can change over time, *even if other things remain the same*. This is an epistemological lesson, which involves the way knowledge is conceptualised. If knowledge about developing countries is considered to be at an advanced stage, with any future developments likely to be mere refinements, the behaviour of outside agencies is less likely to allow for policy space. But because such questions were not addressed, Vanuatu came close to accepting an import tariff regime that would have severely limited its ability to raise revenues. It also suffered inappropriate restrictions on fiscal spending, when budgetary management was generally not a serious problem. The absence of such restrictions in Singapore contributed to its economic prosperity.

The idea of policy space does not mean allowing developing countries unlimited flexibility to change policy in any way they see fit. Outside intervention is valuable because it helps push through difficult reforms, counteracts corruption and can be a valuable source of knowledge about other development experiences. Policy agency, in other words, is not a free-standing entity that should be pursued at all costs. It is a process that exists amid a structure – the international context.

A further lesson from the comparison of Vanuatu and Singapore is that trying to impose blueprints from abroad made policy less useful. In Vanuatu, structural adjustment was generic, based on the standard Washington Consensus model and implemented in five other Pacific island states. Reform in Singapore proceeded gradually and with few impositions by the international community, meaning that ownership of policies was greater and that policy was more closely suited to local conditions. This is an epistemic issue, which involves the often implicit way in which the international institutions, and mainstream economics, used knowledge. In Vanuatu outside reformers did not consider it necessary to take into account subjective local details because, generally, it was believed that the answers were already known.

More specific lessons can be learnt. Perhaps one of the most important sources of Singapore's continuing success is its ability to retain international confidence, not just by accepting outside advice but by showing that it is open to foreign investment. Treating transnational corporations at least as favourably as domestic companies pre-empted such demands from international institutions and foreign governments. The Singaporean government could then pursue policies that might otherwise have provoked dissent. Being open to FDI in a small, open economy with no hinterland made much more sense in Singapore than in Vanuatu, but a similarly strategic approach to economic policy was much less evident in Vanuatu, which experienced political conflict with neighbouring countries and major aid donors. Choosing its battles, perhaps by reducing protection of certain inefficient local factories, would have meant that the government was free in other areas to enact policies that suited the domestic context.

Whilst under the CRP corruption was not the problem that it was alleged to be, the experience of Singapore holds lessons for Vanuatu. The government paid members of parliament and civil servants so much that engaging in corrupt activities was not worthwhile. Although Singapore remains more nepotistic than is sometimes acknowledged, it is far less corrupt than neighbouring countries. This perception of honesty contributes to international confidence. In Vanuatu MPs are paid little more than senior civil servants, who are themselves paid just above subsistence levels. The incentives for corruption are therefore significant. Whilst Vanuatu is more egalitarian than Singapore, and the budget is limited, paying MPs more, perhaps by reducing their number, would have helped reduce corruption and in turn improved the country's image abroad.

The notion of human agency, central to the concept of reflexivity, requires the presence of tools with which humans can collectively manage their economic affairs. The Washington Consensus and its successor attempted to deprive countries of policy tools, leaving as much as possible to market forces. This reduced the scope for agency. The example of Singapore shows that the opposite course of action – leaving a substantial proportion of economic policy and activity under the control of the state – produced more satisfactory economic outcomes. Singapore intentionally retained control over a considerable number of tools with which to manage the economy, such as government spending, import tariffs and subsidies. Protecting policy tools that had implications for social welfare, such as education, health and other social spending, as well as labour and consumer affairs, proved particularly important. The benefits of international competition were retained because the economy featured many transnational corporations and was open to the world economy.

A further lesson from Singapore for Vanuatu, and which is commonplace in current discussion of industrial policy, was that infant-industry protection only worked with the imposition of tight deadlines. Again, the required policy agency and would not have been possible under the Washington Consensus. Perhaps wrongly, politicians in newly-independent Vanuatu considered the manufacturing sector important for national identity. As this tiny industrial lobbying group became entrenched, it grew more powerful and managed to convince the government not to end protection. The persistence of an inefficient, subsidised manufacturing sector has meant that policy was not directed at areas in which the country had a potential comparative advantage, such as agriculture and tourism. Singapore is a much stronger state that featured far greater political continuity, but it is still important to recognise that it put in place credible deadlines for the end of protection and did not allow sheltered industries to form a powerful lobbying force.

8.3.2 Lessons from Vanuatu for Singapore

It might be expected that only Vanuatu can learn from Singapore, but lessons may also apply in the opposite direction. The prevailing view is partly a product of the modernist view of economics, where an external development practitioner imagines that all countries should be made in the materialist image of the West. A reflexive stance, where the development economist or practitioner positioned him or herself as much as possible inside the country being examined, and used subjective data, might lead to an appreciation of local culture, values and norms, and in turn an understanding of ways in which developed country policymakers might learn from others. Development is a two-way process, rather than something that developed nations do to poor countries. Learning from subsistence societies does not mean abandoning the pursuit of wealth, and neither does it legitimise malnutrition, poor education or inadequate health services, but it can refocus attention on non-material economic goals like happiness and social cohesion.

While measuring happiness is notoriously difficult, a number of studies have suggested that Vanuatu has high levels of non-material prosperity. The most convincing of these, a report by the New Economics Foundation (2006), placed Vanuatu in first place on an index measuring happiness and environmental wellbeing in 178 countries. Using subjective and objective data, the report highlights Vanuatu's low 'ecological footprint', (meaning that it required a minimal land area to sustain the population at current levels of consumption, technological development and resource efficiency) reasonable life expectancy and sense of social welfare. The report disputes the use of GDP as a measure of progress, and criticises alternative measures of progress that do not "make explicit use of *subjective* data. In other words they do not include measures of how people actually feel about their lives" (*ibid.*: 9). In giving equal weight to subjective data and objective data such as material wellbeing the index follows an approach that might be considered reflexive.

In the same survey, Singapore came last among the 24 Asian nations surveyed, with a score almost half that of Vanuatu. Given this difference, Vanuatu's development experience holds lessons for Singapore. First, Vanuatu's 'ecological footprint' is very low. Singapore produces considerable waste per hectare. Whilst it would be unrealistic to imagine that Singapore might reverse its material gains, it can learn from the traditional ways in which people live in subsistence communities. The case of Vanuatu shows that sustainable interaction with the environment has intrinsic social worth, rather than being a cost that must be borne in order to stave off environmental damage. The Vanuatu government has consciously tried to preserve traditional society, limiting the adverse impact of commerce and conserving the environment.

Second, the New Economics Foundation index shows (*ibid.*: 35) that people in Vanuatu have a higher 'life satisfaction', meaning that they expressed reasonable happiness with their own lives. Although an attempt at explanation is conjectural and based on anecdotal observation, this difference could be connected with Vanuatu's lower population density, preservation of traditional values, subsistence lifestyle and general absence of stress. Social solidarity in Vanuatu is not artificially constructed as it is in Singapore. A lesson here is that material gains can reduce life satisfaction. A more free and unrestricted society and a reassertion of certain traditions might improve the economic wellbeing of Singaporeans.

Third, the survey (*ibid.*: 35) further highlights the vibrancy of Vanuatu's democratic process, which is held to give people control over their lives, in turn making them feel more fulfilled. Fulfilment and personal autonomy are considered economic ends. The limitations of democracy in Singapore generate a sense of being at the mercy of government decisions, presumably leading to a lower sense of fulfilment and autonomy. Expanding democratic freedoms might therefore improve economic welfare.

8.4 Conclusion

The comparison of the two countries presented here, although not exhaustive, highlights findings on several levels, including the methodological and the practical. An epistemological lesson from comparing Vanuatu and Singapore is the idea that policy space is important. Perceiving knowledge as open and changing leads to policy recommendations that are less specific and binding. A necessary subjectivity in economic knowledge also reduces the relevance of blueprints from abroad. Singapore, where economic growth was highest, maintained significant policy space and avoided international blueprints. Vanuatu, which was less successful, had less policy space and adopted a generic set of reforms.

Ontic lessons from the comparison of Vanuatu and Singapore mainly concern the need to adapt definitions of certain crucial concepts, such as money, to local conditions. Because in Vanuatu money and land ownership were dealt with and defined in the standard way, reforms were less suited to national circumstances. Singaporean policymakers managed to focus much more on the local context, implicitly ensuring that ontological specificities were taken into account.

The discussion was aimed not just at highlighting these methodological and practical lessons – doubtless there are more – but also that analysing international economic development involves *looking* for such lessons. The modernist framework of the Washington Consensus and its successor fail to do this.

Practical lessons from the case studies included the need to maintain international confidence; the validity of paying politicians more to avoid corruption; and the need for agency in order to have the ability to put in place tight deadlines for infant-industry protection. Lessons also apply the other way round, highlighting the problems with the modernist idea of development as something that rich countries perform on the poor. Development is a common endeavour, in which people on both sides of the income divide can learn from each other. Vanuatu's higher standards of non-material wellbeing may have lessons for Singapore, where higher stress levels, a lower sense of personal autonomy and a bigger ecological footprint all reduce wellbeing.

Whilst certain policy universals were necessary in both countries, they had different costs and benefits. Singapore was more successful than Vanuatu in increasing the rate of economic growth because it adopted only those international policy universals that it believed were more appropriate. Seeking substantial FDI had intrinsic benefits, but it also satisfied outside donors and the international community, enabling the Singaporean government to pursue policies that contradicted conventional advice and which latterly conflicted with the Washington Consensus. While certain standard reforms held minor benefits for Vanuatu, on balance the policies recommended were too universalistic in nature.

Theory and policy have intentionally been discussed in an interrelated way throughout this chapter. This is because, as argued by Bourdieu, theory and practice are inextricably related, and, to again cite a quote from Jenkins, "… only insofar as one does things is it possible to know about things" (Jenkins, op. cit.: 69). Critical realists have also drawn attention to the unnecessary separation of economic theory from reality, and this chapter suggested that countries which pursue economic policies that are more closely connected with reality are likely to be more successful. Not only does basing theory in reality help transcend the divide between modernism and postmodernism, but more importantly it may help discern economic interventions that are more humane and useful.

9. CONCLUSIONS

Both modernism and postmodernism suffer shortcomings as frameworks within which to study development economics. The foundationalism, essentialism, determinism and scientism of modernism lead to an approach which is divorced from the real, changing conditions of human society. Many authors increasingly question the positivism that usually characterises modernist approaches, while problems arise from universalising the results of research conducted in one specific locale or period of time. On the other hand, some postmodern approaches resort to extreme particularism or relativism, making development economics a difficult task. To this extent it is fortunate that only certain fringes of economics can be considered to have followed a strictly postmodern route. Yet the dialectical interaction between modernism and postmodernism is profitable, suggesting that economists should tackle the kind of questions thrown up by the discussion.

Open systems approaches respond to the dialectic between modernism and postmodernism. Such approaches – that of critical realism, Keynes and the neo-Austrians – have crucial differences but hold in common the idea that economics is about an ever-changing subject matter which is subject to unpredictability and uncertainty, even in a stochastic manner. These approaches tend to be sceptical about mechanism or atomism in social science, and allow the use of subjective evidence. Such approaches, particularly that of Keynes and the critical realists, are compatible with, and inform, the discussion of reflexivity.

Is reflexivity just an unexpected reversal of relations between two entities, as if a laboratory rat were training a scientist? The concept has further implications than this, as I hope to have shown. While modernism and postmodernism often assume a dualism between subject and object, and between structure and agency, certain versions of reflexivity, notably that of Bourdieu, try to move beyond this dualism. In simple terms Bourdieu's insight is to acknowledge the postmodern insistence on 'putting yourself in another person's shoes' but at the same time retains the modernist detachment of the external observer. The modernism of the Washington Consensus can be so externally detached as to ignore certain important features of the economic landscape in developing countries. The context-specificity of some postmodern approaches loses critical distance and can dissolve into relativity. By moving away from these two extremes, performing self-critique and conducting detailed analysis of the subjective features of developing countries, the researcher can portray a more insightful overall picture and in turn make economic policy recommendations that are more useful and relevant to real conditions in developing countries. Comparative research can also help establish results which are provisional and open to change, rather than permanent and static.

One of the key motivations of proponents of reflexivity is to move away from the kind of irrealism that characterises the approach of much mainstream economics, and to acknowledge that the subject matter of research may be difficult for outsiders to understand. This difficulty in comprehension arises in part because of the wide variations across societies and economies, as well as the inherent subjectivity of certain kinds of knowledge. Because of this openness and variation, economics is likely to be a process of investigation, not a set apparatus. The tradition of Marx, Mannheim, certain anthropologists, Bourdieu and the science studies literature holds the common implication that economics is social theory, rather than the study of atomistic individuals acting in isolation from one another. Ideas spring from specific social circumstances, and thus the background from which ideas emerged is almost as important as the ideas themselves.

The first point of the taxonomy aims to acknowledge this. Development economics as practiced under the Washington Consensus and its subsequent manifestation imagines itself to be the exercise of hard, natural science, much as a scientific technician studies a chemical reaction. Yet in reality it reflects the predispositions and the economic interests of its practitioners. During economic reform it would therefore seem important to examine the influence of external values and norms, including the social context in which ideas or policies were generated. Highlighting context does not automatically make ideas or policies 'right' or 'wrong'; it simply puts them into perspective and may require them to be complemented by ideas or policies which come from within a different context. Global economic development is therefore a joint endeavour – aid agencies and governments need to act 'on' developing countries, and no country can develop without outside contact. But neither are developing countries passive objects with no autonomy. Developing countries can follow their own economic paths, and may even have lessons for the rich world. As suggested, Vanuatu perhaps has more to teach a wealthy country like Singapore than might at first be imagined.

National context therefore matters, and it is important to assess its significance. This means more than just taking account of economic institutions like the exchange-rate regime, central bank or property ownership, although these are important. Culture, values and social institutions all influence the way in which policies work, and how they are formulated. Economic policies which acknowledge this are likely to be stronger – and the cases of Vanuatu and Singapore aimed partly at illustrating this point. Singapore's history of economic reform was more successful because it took account of national context; Vanuatu's was less successful because it did not.

One of the basic meanings of reflexivity, which is perhaps more simple than that intended by Bourdieu or Giddens, is that things affect each other. This point responds particularly to modernist confidence that economic science is proceeding in a teleological fashion and gradually builds up knowledge about developing economies. It is also a further response to the notion that subject and object are strictly separate. In reality policies or decisions can undermine the very goals that they aimed to achieve. Subject and object interact in a way that warrants caution about positivism.

Given that economic systems are open; that economic policy depends on social backdrop or interests; and that economic tools and concepts undermine themselves, it would appear necessary to re-examine the economic theory deployed in a development situation if it proves inadequate or as circumstances change. Following Kuhn, Feyarabend and Lakatos, many have questioned the notion that scientists are prepared to reject their own hypotheses in the face of contradictory evidence, and that we are progressively accumulating knowledge about the world. This is perhaps all the more true in social science, where the variegated and changing nature of the subject-matter – human beings – makes it difficult finally to prove or disprove a hypothesis. What appear at first to be mutually-exclusive ideas may be appropriate in the same situation, whilst theories may be falsified because social circumstances change rather than because new discoveries are made. This points toward the need for a frequent reassessment of the kind of theory employed in developing countries. The honest reappraisal of theory can have profound economic consequences, as shown in the cases of Singapore and Vanuatu.

I have argued here that Singapore's economic success came despite rejection of the Washington Consensus, and in this sense it broke out of the modernist mould. It retained substantial economic policy autonomy, it protected infant industries, the role of the government remained significant, while property ownership was different to that recommended by the international development institutions. The government's ability to fit policy to the national context formed a key explanation for its economic success. Its ability to remain nimble, to re-shape policy to the changing economic environment, further helped it remain economically successful.

Although it would be inappropriate to suggest that Vanuatu could ever exercise as much control over policy and therefore similarly shape policy to domestic circumstances, the government faced a situation in which important policies were effectively dictated by an outside agency. If this outside agency had known beforehand an infallible package of policy measures which was certain to succeed, perhaps the surrendering of policy autonomy would have been acceptable. But this was never likely to been the case because, as argued here, the ability to formulate knowledge about economic reality is imperfect. The ADB simply enacted a package of measures that had been conducted elsewhere in the Pacific region, and which was based on the same methodology that underlay structural adjustment packages elsewhere. The results of reform were disappointing, as shown in chapter 7, and the legacy remains. I have implied that understanding the importance of outside influences and domestic social context, together with the possibility that tools, policies and concepts can affect themselves, and an allowance for more flexibility, would have led to more successful policies.

Hopefully the discussion has shown that economic methodology is important. Thinking about methodological issues helps inform discussions about policy and can have an impact on the results of economics as practiced in developing countries. What emerges particularly is that it is difficult to demarcate a rigid cut-off between methodology, method, theory and practice. Methodology is the approach to knowledge which underpins the selection and application of methods; theory changes according to which school of thought is chosen and influences how an economic problem is approached; practice is usually thought of as being the enactment of policy, which depends on theory, method and in turn methodology. Thinking first about methodology and theory would seem helpful in establishing useful policy measures that fit closely with national realities. It is unlikely that a blueprint for successful economic development exists.

After all this, can the taxonomy successfully claim to help overcome the methodological division between modernism and postmodernism in development economics? As suggested in the introduction, the discussion can only ever be partially and conditionally successful. One reason is that the idea of reflexivity warns against dogmatism in social science, and so cannot claim permanency itself. Dialectical resolution is always to be valued, but the synthesis depends partly on what are the thesis and antithesis. Caution is therefore important, and in a realist vein, direct engagement with the real world would seem paramount.

Another reason why the taxonomy can only be considered provisionally 'successful' is that it was developed alongside the case studies. The case studies were revised in light of the taxonomy, and the taxonomy was altered as the case studies were written. Although this interaction between theory and practice can be considered an asset, it also throws doubt on the possibility that the case studies are a neutral 'test' of the taxonomy. But scepticism about the use of evidence is also warranted in the case of many apparently neutral and objective 'tests' in mainstream economics.

Econometrics is frequently accused of being able to prove whatever point the statistician is aiming to prove, and the use of specific formal methods is likely to produce only a certain narrow range of answers. As Lawson points out, closed-systems methods presuppose an atomistic conception of the economy in which individuals interact in predictable ways. Running a regression rarely captures subjective evidence. The exclusive use of these kind of methods is unlikely to produce research which acknowledges the social and open-ended nature of the economy.

It would be self-contradictory to claim that reflexivity is somehow a total theory, capable of explaining much about development economics in the style of the grand narratives of Marx or Hegel. Part of the point is to avoid such grand narratives. Reflexivity might only give partial insights into the debate. But if it is not an all-encompassing solution, it at least inserts the researcher into the study of developing economies and provides a perspective on how some of the limitations of postmodernism and modernism might be avoided. In a world of economic 'expertise' and sweeping solutions, a certain critical self-reflection is perhaps warranted.

Recognising the self-referential and social nature of economics would not be self-defeating or generate despair. Instead, it should be possible to realise human agency as the old teleological and evolutionist views of history shrink away. We are no longer beholden to grand visions for our collective future, but neither must we "salute Nietzsche and go our separate ways" as Giddens cautions. Liberating human agency from rigid visions of modernity that conceive of abstract individuals exercising free will in an idealised world would build a more realistic picture of how real people behave. Recognising that economics is *constructed*, and that it examines real *social* people, will help it achieve true scientific knowledge.

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