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post-autistic economics review

Issue no. 33, 14 September 2005
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Forum on Economic Reform

In recent decades the alliance of neoclassical economics and neoliberalism has hijacked the term "economic reform". By presenting political choices as market necessities, they have subverted public debate about what economic policy changes are possible and are or are not desirable. This venue promotes discussion of economic reform that is not limited to the one ideological point of view.

Can the World Bank Be Fixed?

David Ellerman* (University of California at Riverside)

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Abstract

If the goal of development assistance is to foster autonomous development, then most aid and "help" is actually unhelpful in the sense of either overriding or undercutting the autonomy of those being "helped." The two principal forms of unhelpful "help" are social engineering and charitable relief. The World Bank is the primary example over the last half century of the failures of social engineering to "engineer" development. Frustration over these failures, particularly in Africa, is now leading the Bank and many other development agencies towards the other form of unhelpful help, namely, long-term charitable relief. The paper outlines some of the reasons for the failure of socially engineered economic, legal, and social reforms both in the developing world and in the post-socialist transition countries. Finally, the argument [given at book length in Ellerman 2005] is summarized in five structural reasons why the World Bank cannot be "fixed."

Introduction

The World Bank (the "Bank") might be taken as the premier development assistance agency. With some exceptions, it represents much of what is wrong with the approach to development assistance in the West over the last half century. I will try to outline an alternative approach to development assistance using the Bank and related agencies (e.g., the IMF or "Fund") as the primary example of how and why development assistance in the customary mode is ineffective and unhelpful.

This is not particularly a Left-Right issue, at least not as conventionally understood. Since World War II, Communism had offered an 'alternative' path to modernization, but from the viewpoint taken here, it was only a more extreme and bone-headed version of the authoritarian and technocratic social engineering mentality exemplified by the World Bank. Our approach is to rethink development assistance from a basic principle of fostering autonomy, not to offer a critique of the Right as if the Left already had a better alternative.

Autonomy-Respecting Assistance

The Helper-Doer Relationship

It is not a new idea that genuine help or assistance will foster autonomy, self-reliance, and self-help at all levels (individuals, organizations, regions, and countries). There is the old Chinese

* David Ellerman recently retired after ten years in the World Bank where for three years he was economic advisor and speech-writer for Joseph Stiglitz during Stiglitz's tumultuous tenure as the Bank's Chief Economist. For more information, see: www.ellerman.org.

proverb that instead of giving people more fish, it is better to teach them how to fish—or better to help them learn how to fish. There is also the old cliché "helping people help themselves" which I used as the title for my recent book on this topic [Ellerman 2005]—with the emphasis decidedly on "people helping themselves." Even the World Bank begins its Mission Statement with a dedication to helping people help themselves (www.worldbank.org). The idea cuts across the fields of human endeavor where there is some helping or assistance relationship such as education, psychology, management, organizing, and counseling. Hence it is useful to think in terms of a generic helper-doer relationship where the teacher-learner, therapist-patient, manager-worker, and so forth are special cases each with their own particular characteristics. But most 'help' in these relationships is unhelpful in the sense of not only not fostering autonomy but of fostering subservience, conformity, passivity, and dependence. Hence a theory of autonomy-respecting help also must include a theory of unhelpful 'help'.

The Fundamental Conundrum of Development Assistance

The assumed goal is transformation towards autonomous development on the part of the doers, with the doers helping themselves. The problem is how can the helpers supply help that actually furthers rather than overrides or undercuts the goal of the doers helping themselves? This is actually a paradox: If the helpers are supplying help that is important to the doers, then how can the doers really be helping themselves? Autonomy cannot be externally supplied. And if the doers are to become autonomous, then what is the role of the external helpers? This paradox of supplying help to self-help, "assisted self-reliance"¹ or assisted autonomy, is the *fundamental conundrum* of development assistance. Over the years, the debates about aid, assistance and capacity-building keep circling around and around it.

Unhelpful Help

There are many strategies for development assistance that may supply help in some form but actually do not help people help themselves. The forms of help that override or undercut people's capacity to help themselves will be called "unhelpful help."²

There are essentially two ways that the helper's will can supplant the doer's will to thwart autonomy and self-help:

- 1) The helper, by social engineering, deliberately tries to impose his will on the doer; or
- 2) The helper, by benevolent aid, replaces the doer's will with her will, perhaps inadvertently.

"Override" or "undercut" are shorthand terms for these two conceptually distinct yin-and-yang forms of unhelpful help (which may be combined, as when benevolence hides the desire to control).³

¹ The phrase is from Uphoff, Esman and Krishna (1998). See also Chapter 8 of Fisher (1993) on the "central paradox of social development."

² For related notions, see Gronemeyer (1992) on "help (that) does not help" and Ivan Illich's notion of "counterproductivity" (1978).

³ Albert Memmi found essentially the same two forms of an unhelpful helper-doer relationship. In the social engineering case, the "helper" is the dominator or colonizer while the "doer" is the subjugated one or the colonized (Memmi 1967). In the case of "oppressive benevolence" (to use John Dewey's phrase), the "helper" is the provider and the "doer" is the dependent (Memmi 1984).

Unhelpful Help #1: Social Engineering

The overriding form of unhelpful help is a type of social engineering. The helpers supply a set of instructions or conditionalities about what the doers should be doing. They also offer motivation to follow this blueprint through various forms of aid to override the doers' own motivations. If we use the metaphor of the doers as trying to work their way through a maze, then the helpers as social engineers perceive themselves as helicoptering over the maze, seeing the path to the goal, and supplying instructions (knowledge) along with carrots and sticks (incentives) to override the doers' own motivation and push the doers in "the right direction."

Unhelpful Help #2: Benevolent Aid

The second form of unhelpful help occurs when the helper undercuts self-help by inadvertently supplying the motivation for the doer to be in or remain in a condition to receive help. One prominent example of this is long-term charitable relief. The world is awash with disaster situations that call for various forms of short-term charitable relief. The point is not to oppose these operations but to point out how charitable relief operates in the longer term to erode the doers' incentives to help themselves—and thus creates a dependency relationship. Charity corrupts and long-term charity corrupts long term.

All aid to adults based on the simple condition of needing aid risks displacing the causality. The working assumption is that the condition of needing aid was externally imposed (e.g., a natural disaster); the aid recipient shares no responsibility. But over the course of time, such aid tends to undermine this assumption as the aid becomes a reward for staying in the state of needing aid,⁴ all of which creates dependency and learned helplessness. Thus relief becomes the unhelpful help that undermines self-help.

Modernization and Development as a Social Engineering Project

Prior to the twentieth century, economic development in Europe and North America was seen as the outcome of a natural process of growth rather than as the result of a massive social engineering project. But when the lagging countries envisioned their "late industrialization," engineering and even military images came to the foreground. After the revolution in a Russia barely emerging from feudalism, real-existing socialism was seen as a socially-engineered short-cut directly to modernity and an industrial society.

In the West, socially engineered visions of development did not take hold until after World War II. The Marshall Plan was seen as an enormously successful "project" for the reconstruction of western Europe.⁵ With the liberation of the many former European colonies in the Third World and the advent of the Cold War, the West quickly realized that it needed to offer a non-communist path to rapid modernization and industrialization. With the newly created World Bank and International Monetary Fund (IMF) as the lead organizations and with the Marshall Plan as the mental model, economic development was reconceptualized as a social engineering megaproject

⁴ See Ellwood (1988) on the "helping conundrums."

⁵ *Nota bene*, it was the "reconstruction" of an already developed Europe, not the development of Europe. Thus the application of the Marshall Plan idea to the Third World was misconceived from the beginning.

rather than as an evolutionary socio-economic-historical process. The Soviet Bloc countries were not members of the World Bank or IMF (unlike the United Nations)—in spite of the adjectives "World" and "International"—so the race was on between the West and Soviet Bloc to offer the best development model to the "Third World."

With the dissolution of the Soviet Bloc and the Soviet Union in the early 1990s, the western development assistance institutions triumphed as offering the One Best Way. And the Second World, the formerly socialist countries, became new clients of the international development agencies. International development is now a huge "industry" in itself. The World Bank and the IMF are joined by development organizations associated with the UN (e.g., the UN Development Program and the UN Industrial Development Organization), by the World Trade Organization, by regional development banks in Africa, East Europe, Latin America, and Asia, by bilateral foreign aid agencies (such as the US Agency for International Development), by a panoply of operating foundations working on development issues (e.g., the Ford, Rockefeller, Carnegie, and Soros foundations), and finally by swarms of non-governmental organizations (NGOs) from both the North (developed countries) and South (developing countries).

Over the decades, the major development assistance institutions have run through a number of development foci (or fads). Initially, the focus was on provision of physical infrastructure: roads, seaports, airports, dams, and power plants. After much expensive disappointment, the emphasis shifted to education (formation of "human capital"), health, and the satisfaction of basic necessities.

These programs represented a swing of the pendulum away from the engineering-oriented infrastructure programs towards the other form of unhelpful help, charitable programs. But as these charity-oriented programs yielded neither the desired developmental results nor loan repayments, the pendulum swung back to social engineering in the form of structural adjustment programs. Here the social engineering came more from economics than civil engineering, and the slogan was "Get the prices right." But since markets require a reasonably well-functioning set of institutions, the focus on prices and structural adjustment soon broadened to governance issues including corruption, business climate, and a legal system to protect property rights and to adjudicate and enforce contracts. Hence the current slogan is "Get the institutions right" as if institutions could be socially engineered as large development projects.

Today the pendulum in the World Bank and many of the other international and bilateral agencies is starting to swing back in the direction of charitable disaster relief. Development, where it has occurred (e.g., East Asia), has been a relatively incremental process rather independent of the social engineering projects and programs offered by the Bank and Fund. The major assistance bureaucracies such as the Bank need to reinvent reasons for their continued existence. The crisis of AIDS and other diseases such as malaria threaten to undo many of the meager developmental accomplishments of the past. It is likened to a "silent tsunami" that calls for the development assistance agencies to shift into disaster relief mode to meet the crisis.

The other major factor today came forcefully into the foreground with the events of September 11, 2001. The War on Terror may eventually replace the Cold War in the rationalization of the major agencies. The ascent of Paul Wolfowitz to the Presidency of the World Bank may be a case in point. The role of the major agencies is twofold. There is the "camp-following" role of post-

conflict "nation-building" in Afghanistan and Iraq that builds upon earlier post-conflict experience in the Balkans and East Timor. And there is the longer term "draining the swamp" role of fighting the poverty and desperation that supposedly bred terrorism.⁶

After nearly six decades of attempts to socially engineer development, the various efforts cannot be judged a success.⁷ Where development has been most successful in the East Asian countries, the standard model (e.g., "Washington Consensus") has not been followed and outside observers do not credit the development agencies with a key role [e.g., Wade 1990]. Where the international agencies have had the freest hand to try to impose solutions, e.g., in Africa and Latin America, there has been the least success [e.g., Van de Walle 2001 on Africa]. This was the conclusion of even the World Bank's own respected researcher William Easterly [2001].⁸

The Challenge of the Transition: Shock Therapy as Ersatz Social Engineering

The transition from communism to a private property market economy presented a unique challenge to the major development assistance agencies. It was a new challenge since prior history did not provide examples of this systemic transition. The transition is a wonderful case study of the effects of 'enlightened' social engineering for two reasons. One reason is that the transition and the role of the major development agencies in it took place largely in the decade of the 1990s so that we have a little perspective of history. The other reason is that there was a

⁶ For the first post-9/11 All Bank Conference on Development Economics (ABCDE) conference in 2002, a distinguished Princeton economist, Alan Krueger, was commissioned to give an empirical paper on the roots of terrorism. The Bank had a clear Official View that terrorism was rooted in poverty so that some of the huge funds for the war on terrorism could be channeled to the Bank. When Krueger's paper arrived so that it could be printed for distribution at the conference, its conclusions were quite the opposite. Little connection between terrorism and poverty or education was found. Instead evidence pointed to "political conditions and long-standing feelings of indignity and frustration that have little to do with economics." (Krueger and Malecková 2003, 119) The Board representatives from the Gulf States were particularly upset at the mention of political conditions and at the fact that the Bank would commission a study of terrorism in the first place. They managed to get the apparatchiks in the Development Economics Vice-Presidency (DEC) in the Bank to completely suppress the paper at the conference and to 'air-brush' it out the conference program (see <http://econ.worldbank.org/abcde/>) and publications. It was later published in the *Journal of Economic Perspectives* (Krueger and Malecková 2003) with no mention of the incident or of the Bank.

⁷ One consequence of consistent failure is the watering down of the notion of evaluation to the ultimate low-hurdle form, a so-called "impact evaluation." The most basic notion of valuation in economics is the notion of opportunity cost: the cost of using resources of plan A is the value foregone by not taking the best alternative plan B using the *same* resources. Hence the heart of the notion of "evaluation" is to compare the results of the plan A that was undertaken with the best alternative plan B using roughly the same resources. But in the face of persistent failure over decades, the project managers in the Bank and other major agencies have come to favor "impact evaluations" that compare the results of the undertaken plan A to the "counterfactual" of spending no resources at all. Thus if a project manager can spend hundreds of thousands or millions of dollars and not do actual harm (with some positive results) compared to what would have happened if *nothing* was spent, then the project gets a positive (impact) evaluation! It is as if a company would spend \$1,000 or \$10,000 of variable costs on each unit of a product A that could sell for at most \$100. An "impact evaluation" was then done to "see what works and what doesn't" to generate positive revenue. It was found that product A indeed generates \$100 of revenue while the counterfactual of no product (and no costs) generates no revenue, so definitely product A "works" and gets a positive evaluation. It is not surprising that project managers love this ultimate low-hurdle form of "evaluation" and that the World Bank is now engaged in promoting "impact evaluations" as the "scientific" way to "see what works" in development assistance.

⁸ Easterly was charged with an "ethical" violation on a technicality (failing to get prior approval from the Bank's public relations department before publishing a personal op-ed piece about the book's conclusions) and was forced out of his tenured position in the World Bank shortly thereafter. He is now a university professor.

remarkable natural experiment in the transition; the two major countries, Russia and China, each used opposite philosophies. Russia chose the social engineering model of institutional shock therapy offered by the international development agencies and the most prominent academic economists as advisors. China chose pragmatism after "learning the hard way" the lessons from using Bolshevik methods to try to engineer social change (e.g., the Great Leap Forward and the Cultural Revolution).

The difference in results could hardly be more striking. Since the Chinese reforms started with government support in the early 1980s, China has had around 8 percent per capita annual growth [McMillan 2002, 204], perhaps the largest growth episode in history.

Russia using the shock therapy strategy went the other way. In the first year of shock therapy (1992), production fell by 19 percent with a further 12 percent and 15 percent in the ensuing two years [McMillan 2002, 202]. In all, the country bottomed out at about a 50 percent drop in GDP. Experts can argue about the interpretation of the economic statistics, but the demographic trends tell an even more worrisome story. The population has actually declined over the 1990s in such a precipitous manner—now for every 100 babies born, 170 Russians die—that the government projects a 30 to 40 percent drop by 2050 [Feshbach 2003a, 2003b]. The causality behind these trends is very hard to disentangle—which is why the side-by-side comparison with China is so revealing.

Since the systemic transition from plan to market had never happened before in history, it surely called out for a non-dogmatic approach of trial-and-error and experimentalism, i.e., for pragmatism. Two earlier attempts to socially engineer revolutionary changes in social, political, and legal institutions—the French Revolution and the Russian Revolution—had led to disastrous results. The names "Jacobins" and "Bolsheviks" entered history as labels to describe those who eschew pragmatism to try to force historical change.

One of the most influential critiques of the Jacobin methods used in the French Revolution was Edmund Burke's *Reflections on the French Revolution: In a letter intended to have been sent to a gentleman in Paris* [1937 (orig. 1790)]. At the beginning of the decade of the transition (1990s), Ralf Dahrendorf (a political sociologist and head of the London School of Economics), wrote a book, *Reflections on the Revolution in Europe: In a letter intended to have been sent to a gentleman in Warsaw* [1990], updating Burke's message for the coming post-socialist transition. Dahrendorf argued for the transition "to work by trial and error within institutions" [1990, 41; quoted in: Sachs 1993, 4]. Neoclassical economics has become the primary intellectual framework of today's social engineering. In the early debates about the transition, a prominent economist and even more gifted self-publicist, Jeffrey Sachs (then of Harvard and now at Columbia University), argued that he and other economists already had the answers. After quoting Dahrendorf, Sachs argued to the contrary in favor of an economics-inspired crash program of institutional shock therapy. "If instead the philosophy were one of open experimentation, I doubt that the transformation would be possible at all, at least without costly and dangerous wrong turns." [Sachs 1993, 5]

The French Revolution was not the only relevant historical example. John Maynard Keynes described the Russian Revolution and its aftermath in terms that are surprisingly apt to describe Russia in the 1990s.

We have a fearful example in Russia today of the evils of insane and unnecessary haste. The sacrifices and losses of transition will be vastly greater if the pace is forced....For it is of the nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, far worse than the old, and the grand experiment will be discredited. [Keynes 1933, 245]

Instead of taking these lessons to heart, the Russian reformers of the 1990s became "market bolsheviks" [Reddaway and Glinski 2001] in their attempt to use the "window of opportunity" to make the opposite transition from plan to market.

There are a number of factors that combine to yield this view of engineered revolutionary change. The question is not whether or not to make systemic change. The question is: given a commitment to basic change—to get to the "other side of an institutional chasm"—how best to get there? A pragmatic approach would emphasize incremental step-by-step change starting from where people are. Sachs often used the metaphor "you can't jump over a chasm in two leaps" but even rather radical pragmatists would argue that people "need a bridge to cross from their own experience to a new way." [Alinsky 1971, xxi].

Another factor leading to social engineering schemes is the use of simplified abstract models and a lack of experience in the give and take of practical political experience. James Scott's book [1998] argues persuasively that states use simplified pictures of static reality to administer their affairs (e.g., to collect taxes and to staff the army) but that these simplified pictures lead to disaster when they are the basis for large-scale social engineering schemes to change societies. Academic economists and global development bureaucrats have little contact with local realities and thus they tend to be driven by such simplified cartoon models. Exiles who have not participated in the give and take of politics in a country for years if not decades also tend to have cartoon models. It is the combination of power and highly simplified models of complex social realities that is particularly lethal. In our case, the power of the international agencies together with the bureaucratic/academic cartoon models contributed to the debacles of shock therapy in the FSU.

There is a side-theme that might be explored. Youthful prodigies are typically in activities based on abstract symbol manipulation (e.g., mathematics, music, and chess) where subtle and often tacit background knowledge obtained from years of human experience is not so relevant (see Scott's discussion of pragmatic knowledge or "metis"). As economic theory has become more mathematical, there is now the phenomenon of *wunderkind* professors in economics (e.g., Jeffrey Sachs, Larry Summers, and Andrei Shleifer were all prodigy-professors at Harvard) who are then unleashed—with the compounded arrogance of youth, academic credentials, and elite associations—into the real world as ersatz "economic reform experts." Paul Starobin [1999] contrasts the *wunderkinder* of "Big Bangery" with the mature pragmatists behind the Marshall Plan, and notes the striking difference in results. When *wunderkinder* cast long shadows in the development agencies (e.g., Summers as Chief Economist in the Bank, Shleifer as manager for USAID's big project in Russia, and now Sachs as a top 'development' advisor to the UN), then it must be late in the day for those agencies.

"Cargo Cult" Economic Reforms: Where is the Road to Cargo?

There is a certain self-reinforcing vicious circle that leads the Bank and other agencies to try to "install" inappropriate institutions in developing and transitional post-socialist countries. Let us begin with the supply side of this unhappy transaction.

People from advanced developed countries are, in effect, "born on third base and think they hit a triple."⁹ Such "natural-born development experts" may be graciously disposed to teach developing countries how to "hit a triple." The developing country should redraft its laws to describe the institutions seen from the vantage-point of "third base" [e.g., "like in America"] and then after passing these new laws, everyone should wake up next morning as if they too were born on third base.

Societies, however, tend to operate on the basis of their *de facto* institutions, norms, and social habits, not their formal laws—and particularly not the formal laws "pulled out of the air" with little relation to past experience. When such a gap between formal and *de facto* institutions is introduced, then the bulk of the population can rarely "jump over the chasm" to suddenly start living according to the new formal laws—so the rule of law is weakened. Semi-legal ("gray") and illegal ("black") activities become more prominent as the connection between legal and actual behavior is strained to and beyond the breaking point. The advice from the natural-born development experts thus becomes more part of the problem than part of the solution. More relevant institutional information could be provided by people who were only on first or second base since they might actually know how to hit a single or a double.

Now consider the demand side—the demand for impossible "overnight" jumps to institutions copied from technologically advanced developed countries. The people and the politicians of the developing and the transition economies are constantly bombarded by the mass media with images of life in the "First World." They want to get there "tomorrow" (if not "yesterday"). Consultants and academics from elite universities with no real development experience badger the government officials to have the political courage and will to undertake a shock-therapy-style change in institutions, to jump over the chasm in one leap (i.e., jump directly to third base)—*as if* such institutional change were actually possible. Those locals who caution against radical leaps are dismissed as only trying to protect their privileges and "rents" from the past regime. "How dare you think you know better than professors from Harvard!"¹⁰ The idea is to "escape the past," not to study the past to better develop incremental change strategies. If the scientific experts from the First World give this advice, how can the benighted officials from the Third World or the post-socialist countries resist? All people have to do when they wake up the next morning is to start behaving according to the new laws drafted by the experts!

⁹ The baseball metaphor was used by the Texan populist and political commentator Jim Hightower to describe the first President George Bush.

¹⁰ See Wedel [1998] and Ellerman [2001, 2003] for more on the role of the Harvard *wunderkinder* in Eastern Europe and in Yeltsin's Russia. Jeffrey Sachs was the first young Harvard economics professor to gain notoriety in this regard, but he was soon eclipsed by his colleagues Lawrence Summers (who during the early 1990s became Chief Economist of the World Bank and later Secretary of the Treasury in the U.S. government) and, his protégé, Andrei Shleifer (born in Russia but emigrated to America as a teenager).

For instance in a southeast European post-socialist country that had been particularly isolated in the past, government officials wanted to jump to modern corporations "like in Europe." This was an example of an "iceberg" institutional reform; the "above the water-line" laws could be quickly changed but the problem was the "below the water-line" long-term changes in behavior.¹¹ They located a European foundation that was willing to fund an "adaptation" of the corporate laws of a west European country. The new draft laws were quickly passed by the Parliament so that the government officials and legislators could brag that they now had "European corporate statutes." All they needed now was a few lawyers, a few judges, a few accountants, a few regulators, a few business people, and a few decades of institution-building experience so that the new statutes could actually be used. Any attempt to get the country to adopt laws similar to those in neighboring countries that had incrementally evolved towards a market economy for several decades was angrily rejected. "Why do you try to get us to use these second-best or third-best laws when we can adopt the *best* European statutes?" Surely the natural-born development experts from the First World want to provide the *best* laws for their clients?

Thus the government officials demand that they do not want some second-best model; they want the "very best" for their people—like in the advanced countries. The third-basers in the international aid bureaucracies then can reap the seeds they have sown by "listening to the clients" and "responding to the clients' desires" by trying to set up "public joint stock companies" in Albania, a "stock market" in Mongolia, "defined contribution pension plans" in Kazakhstan, and "modern self-enforcing corporate laws" in Russia.¹² Thus the circle is completed; supply responds to demand in a self-reinforcing vicious circle to waste untold aid resources on the attempted instant gratification of a non-evolutionary "Great Leap Forward" to First World institutions.¹³

The failed attempts at utopian social engineering might be usefully viewed from an anthropological perspective. Many of the First World institutions such as "The Stock Market" have a certain totemic or 'religious' significance. The Wall Street mentality found in the post-socialist world is reminiscent of the cargo cults that sprung up in the South Pacific after World

¹¹ The difference was noted by the British economic historian, Richard Tawney, after visiting China in 1930. "To lift the load of the past, China required, not merely new technical devices and new political forms, but new conceptions of law, administration and political obligations, and new standards of conduct in governments, administrators, and the society which produced them. The former could be, and were, borrowed. The latter had to be grown." [Tawney 1966 (orig. 1932), 166]

¹² See "Corporate Law from Scratch" [Black, Kraakman, and Hay 1996] for a remarkable example of trying to etch first-best laws as if on a blank slate in Russia. Even more remarkable is that after much bitter experience with corporate governance in Russia, Black and Kraakman reversed themselves [Black et al. 2000] and argued for a more pragmatic "staged" approach to legal and institutional development. The third author of "Corporate Law from Scratch", Jonathan Hay, was a legal specialist from the Harvard Law School who worked with Shleifer in Russia on USAID contracts through Harvard. Shleifer and Hay were later indicted by the US Department of Justice and convicted for corrupt practices in that work.

¹³ Again Tawney put it well. "What makes modern industry is ultimately not the machine, but the brains which use it, and the institutional framework which enables it to be used. It is a social product, which owes as much to the jurist as to the inventor. To regard it as an ingenious contrivance, like a mechanical toy, or the gilded clocks in the museum at Peiping made by London jewellers for the amusement of Chinese emperors, which a country can import to suit its fancy, irrespective of the character of the environment in which the new technique is to function, is naïve to the point of absurdity. It is like supposing that, in order to acclimatise Chinese script in the West, it would be sufficient to introduce Chinese brushes and ink." [Tawney 1966 (orig. 1932), 130]

War II.¹⁴ During the war, many of the glories of civilization were brought to the people in the southern Pacific by "great birds from Heaven" that landed at the new airbases and refueling stations in the region. After the war, the great birds flew back to Heaven. The people started "cargo cults" to build mock runways and wooden airplanes in an attempt to coax the great birds full of cargo to return from Heaven.

Post-communist countries, with hardly a banking system worthy of the name, nonetheless opened up Hollywood storefront "stock exchanges" which were kickstarted by the listing of shares in almost all companies in a voucher privatization program. Government officials in East Europe, the former Soviet Union, and even Mongolia proudly showed the mock stock exchanges, complete with computers screens and "Big Boards," to western delegations of Bank, Fund, and USAID officials (with enthusiastic coverage from the western business press) in the hope that finally the glories of a private enterprise economy will descend upon them from Heaven. An earlier generation of misguided development efforts left Africa dotted with silent "white elephant" factories, and the present generation of revolutionary reforms in the post-socialist world left the region dotted with dysfunctional "cargo cult" institutions—the foremost among them being the largely totemic stock markets.

Summing Up

After book-length argumentation [Ellerman 2005] that is only hinted at here, I concluded that the World Bank could not be "fixed." Its activities and policies are the result of at least five powerful structural imperatives that cannot be changed, say, by more enlightened or well-intended leadership.

Structural Problem #1: Monopolistic Power

If in fact development were the sort of thing that could be "socially engineered" then there would be a good case to have a very powerful global development agency. But wherever the desired outcomes require sustainable changes in the actions and beliefs of the doers—unlike the "vaccination of children" or "mosquito nets" model of assistance¹⁵—then the engineering approach subtly fails to achieve thorough-going and long-lasting results. The externally-sourced pressures of the direct engineering approach can only create the external show of results that provides a type of short-term pseudo-verification for the aid bureaucracies. Genuine internal change in the doers requires internally-sourced motivation and active learning by the doers—all of which requires a fundamentally different autonomy-respecting approach on the part of the helpers.

¹⁴ See the chapter on "Cargo Cult Science" in Feynman 1985. See the Foreword by J. K. McCarthy in Lawrence 1979 for the cargo cult formulation of the question of development assistance: "Where is the road that leads to cargo?"

¹⁵ These are code phrases for the rather common type of development thinking (Jeffrey Sachs is a foremost current representative) that implicitly models development assistance on a physical effect regardless of the autonomous efforts of the doers. The predominant image is that the helpers parachute into, say, Africa and "vaccinate children." The beneficial effect is physical regardless of the voluntary (never mind autonomous) efforts of the apparently helpless and child-like beneficiaries themselves. The helpers can then fly out with a warm glow of moral satisfaction for having done some good. "Providing mosquito nets" is the most recent cartoon image of development assistance.

One problem lies in the imperatives of the organizations themselves. Individuals in large or small aid organizations need to "move money" and "show results" for their bosses, sponsors, or donors. Hence the would-be helpers will try to take over, control, and own the interaction with the doers in order to "deliver" the desired "results." The more powerful the helping organization, the more damaging is this organizational drive.

On the whole, the conundrum of actually helping people help themselves is so basic and subtle that trying to get a large development agency to operate on that basis is akin to trying to get an elephant to dance a ballet. Regardless of the rhetoric and good intentions, it is not going to happen.

The World Bank is now an economists' bank, not a civil-engineers' bank. One might think that all the economists in positions of power in the Bank would recall their catechisms about the problems of monopoly. But it would seem that they are more attracted to the notion of "global" than they are repelled by the notion of "monopoly." All the rhetoric about a "global agency" having a "global role" to gather "global knowledge" to solve "global problems" seems to be so much "globaloney" to justify the monopolistic world-wide role of the World Bank.

Structural Problem #2: Affiliation with United States' Policies and Interests

All this would be true of the World Bank if it were located in a neutral city like Geneva or, if one can imagine it, in the developing world, e.g., in Africa. But in fact, the World Bank and the IMF are located a few blocks from the White House in Washington. Most of the communist countries during the Cold War period, like North Korea or Cuba today, were not members of the Bretton Woods institutions so the International Bank for Reconstruction and Development and the International Monetary Fund were not "international" in the sense of the United Nations. Instead they were part of the "West" led by the United States.

Today after the collapse of the Communist Bloc, the United States has emerged as a relatively unchallenged global power, and the Bank and IMF have kept their role as team players headquartered a few blocks from the White House. By arrangement, the President of the Bank is always an American national selected by the US President while the Fund has always been led by a European.¹⁶ Both institutions are thoroughly imbued with an American perspective as expressed in the variants of the "Washington Consensus" (e.g., Stiglitz 2002) and in the cheerleading for increased American hegemony under the label of "globalization." Thus on many issues, the U.S. Government does not need to exercise direct control. But on the major issues of the day, the Bank and Fund twist and turn according to the twists and turns of American foreign policy.¹⁷ This would be the same even if the president of the Bank was not Paul Wolfowitz.

¹⁶ Hence the highest ranking American in the Fund is typically the number two position of Deputy Managing Director. When Stanley Fischer, the Deputy Managing Director of the IMF during the contentious late 1990s and a previous Chief Economist for the World Bank, retired from the IMF, the former MIT professor immediately took the yellow-brick road from 19th Street (IMF headquarters) to Wall Street to become a vice-chairman of Citigroup. That was certainly congruent with the hypothesis that the IMF sees the world through a Wall Street lens.

¹⁷ See Blustein 2001 and Stiglitz 2002 on how the Bank and Fund functioned as a junior partner in US foreign policy in Russia and in the East Asian crisis during the 1990s.

Structural Problem #3: Money is Not the Key to Development Assistance

The third problem is that the Bank is a bank. The idea that money is key to development goes back to the original idea of the Bank as financing civil engineering projects, a role now largely taken over by the private sector. When the Bank then turned to policy-based lending and institutional development projects, it of course did not cease to function as a bank. While capital may indeed have been the missing ingredient necessary to build a dam or power station, it is by no means clear that money can buy real changes in policies or can build institutions. Indeed, the availability of large amounts of money to developing countries overrides their other motivations and redirects their attention to playing whatever game is necessary to get the money. Money is the magnet that sets all compasses wrong; it is the root of much unhelpful help. Decades of experience in Africa and elsewhere have made it crystal clear that money is not the key missing ingredient in institutional development (as it might be in building an airport). The implicit assumption that a development agency should function as a money-moving machine has little to support it and much evidence against it. The recent efforts by the "Development Set" (from political leaders and academic 'development' experts to pop stars) to address Africa's development problems by pumping in huge additional amounts of money are pathetically misdirected. The Bank has already "been there and done that."

Structural Problem #4: Working Through Governments that are Part of the Problem

The fourth structural problem is that in the Bank's helper-doer relationships, the doer is the government of the developing country. Needless to say, the governments of developing countries are made up more of the rich than the poor and more of the powerful than the powerless.¹⁸ Yet the mission of the Bank is to enrich the impoverished and to empower the disempowered. Putting the mission together with the *modus vivendi* yields the unlikely strategy of working through the rich and powerful to help the poor and disempowered people of a country. But making any fundamental changes in the economic, political, and social relationships could not be further from the intentions of the rich and powerful elites in these countries.¹⁹ Since these elites are more a part of the problem than a part of the solution, it should be no surprise that this strategy has shown meager results. And the current calls to pour still more aid money through the usual channels do not address the problem. Loan and aid monies to the governmental elites will be used mostly for their own benefit with at best some trickle-down to the poor—feed enough oats to the horse and some will pass through to the road for the sparrows. Hence the effort of today's "development leaders" to feed even more oats to the horses—all because of their heart-felt concern for the sparrows.

Structural Problem #5: Tries to Control Bad Clients Rather Than Exit Relationship

The fifth structural problem is the organization of the Bank as helper in its helper-doer relationship. The Bank is essentially a financial cooperative of its member countries, the developed "Part I" countries that participate mightily in Bank governance but do not borrow and the developing "Part II" countries that can borrow from the Bank. The problem with the borrowers

¹⁸ And the staff members in the Bank and Fund from developing countries are drawn from the middle and upper classes.

¹⁹ Charitable programs focused on individuals or families (e.g., microfinance loans to individuals) are fine but the elites would not support help to the poor and disenfranchised to organize themselves socially and politically to collectively act on their own behalf.

being members is the way the voice-exit dynamics plays out. A commercial bank does not have to make loans to any specific potential clients; it has no fixed set of "members." While a commercial bank might try to work with a potential client to improve its borrowing capacity, there are limits on that relationship. When the potential borrowers shows little inclination to reform or restructuring, then the commercial bank can exit the relationship.

But the World Bank is locked into a relationship with the worst borrowing countries in the world. As these countries are in the most need of genuine help, the Bank is constantly torn between the desire to help the poorest of the poor countries and to walk away from oppressive and kleptocratic governments of those countries. While the Bank can in some cases reduce its involvement to a legal minimum, it cannot just walk away like a commercial bank. Hence the exit-voice dynamic works in the other direction of the Bank trying to exercise more voice in the country—in effect to try to run the country in a state of tutelage (no doubt together with the IMF). If the experience in sub-Sahara Africa is any guide, the Bank's tutelage is not very effective. In many of the poorest countries, the lack of state capacity along with the AIDS crisis and the "no exit" condition on the Bank have transformed the Bank's aid program from social engineering for development towards the model of long-term charitable relief (the second form of unhelpful help).

Indeed, if I was to make a "cynical prediction" about the future trajectory of the Bank, then the prediction is that the Bank will be both pushed and pulled to become a hospital for the "basket cases" of development assistance (e.g., post-conflict countries or "low income countries under stress")—particularly in Africa. Then the Bank will combine the first form of unhelpful help (social engineering) with the second form of unhelpful help (long-term charitable relief). It is well-nigh structurally impossible for the World Bank to actually help people to help themselves. Fifty-plus years is more than enough.

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SUGGESTED CITATION:

David Ellerman, "Can the World Bank Be Fixed", *post-autistic economics review*, issue no. 33, 14 September 2005, pp. 2-16, <http://www.paecon.net/PAEReview/issue33/Elleman33.htm>

Forum on Economic Reform

The Rise and Demise of the New Public Management

Wolfgang Drechsler (University of Tartu and Tallinn University of Technology, Estonia)

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Within the public sphere, the most important reform movement of the last quarter of a century has been the New Public Management (NPM). It is of particular interest in the post-autistic economics (pae) context because NPM largely rests on the same ideology and epistemology as standard textbook economics (STE) is based (for my take on this, see Drechsler 2000), and it has had, and still has, similar results. Already more on the defensive within public administration (PA) than STE is within economics, NPM also shows that such major paradigm shifts in theory and policy may actually happen. In addition, it occasionally appears that pae-oriented scholars have overlooked the fact that some features in public management reform, state organization, and the economic interpretation of state functions that they advocate – from “Good Governance” to “efficiency” as a goal in itself – actually belong into the “other camp” and by and large have a disastrous effect on “industrial” and “developing” countries alike, although the consequences for the latter are much more severe.

NPM is the transfer of business and market principles and management techniques from the private into the public sector, symbiotic with and based on a neo-liberal understanding of state and economy. The goal, therefore, is a slim, reduced, minimal state in which any public activity is decreased and, if at all, exercised according to business principles of efficiency. NPM is based on the understanding that all human behavior is always motivated by self-interest and, specifically, profit maximization. Epistemologically, it shares with STE the quantification myth, i.e. that everything relevant can be quantified; qualitative judgments are not necessary. It is popularly denoted by concepts such as project management, flat hierarchies, customer orientation, abolition of career civil service, depolitization, total quality management, and contracting-out.

NPM comes from Anglo-America, and it was strongly pushed by most of the International Finance Institutions (IFI's) such as the World Bank and the IMF. It originates from the 1980s with their dominance of neo-liberal governments (especially Thatcher and Reagan) and the perceived crisis of the Welfare state, but it came to full fruition in the early 1990s. NPM is part of the neo-classical economic imperialism within the social sciences, i.e. the tendency to approach all questions with neo-classical economic methods.

In advanced PA scholarship itself, especially – but not only – in Europe, NPM is on the defensive by now, if taken as a world view (i.e. an ideology), rather than as one of several useful perspectives for PA reform (i.e. part of a pluralistic approach). The question here is more whether one favors post-NPM (anti-NPM) or post-post-NPM, Weberian-based PA, the latter being the most advanced, and the most sophisticated, and now called the Neo-Weberian State (NWS). What was an option ten years ago is not an option anymore today. I would say that in PA

- in 1995, it was still possible to believe in NPM, although there were the first strong and substantial critiques
- in 2000, NPM was on the defensive, as empirical findings spoke clearly against it as well
- in 2005, NPM is not a viable concept anymore

Yet, in many areas, both of scholarship and of the world, as well as in policy, NPM is very alive and very much kicking. It is, therefore, necessary to look both at the concept itself and at the reasons for its success.

Basic Problems of the New Public Management

As important and, though more rarely, as successful as several NPM-inspired reforms of the public sector might have been and still may be, what one notices first when looking at the public and private spheres is the difference, not the similarity. The state is denoted primarily by its monopoly of power, force, and coercion on one side and its orientation towards the public good, the commonweal or the *ben commune*, on the other; the business world legitimately focuses on profit maximization. NPM, however, as it has been said, “harvests” the public; it sees no difference between public and private interest. The use of business techniques within the public sphere thus confuses the most basic requirements of any state, particularly of a Democracy, with a liability: regularity, transparency, and due process are simply much more important than low costs and speed.

This low-cost and speed imperative is directly related to the main battle-cry of NPM, efficiency, which is invariably defined much too narrowly in NPM – perhaps, this misunderstanding is even defining, and systemic to, NPM. Efficiency is a relative concept that is based on context and appropriateness: it is efficient to achieve a certain effect with a minimum of resources. But this effect, in the case of the state, is denoted by several auxiliary but necessary conditions such as the ones mentioned above; it is never profit maximization. (It could be argued that most activities carried out by the public sector are there precisely because no direct profit or gain can be made.) If you go for savings and neglect context and even the actual goals, you will not be efficient but rather the ultimate wastrel. (Not for nothing are wastrels and misers considered to be the same type of sinner in Dante’s Hell.) This misunderstanding of the concept of efficiency and the depolitization that comes with it are typical symptoms of technocracy and bureaucracy, which NPM professes to oppose but which, as Eugenie Samier has demonstrated, it rather fosters. (2001) As a result of this insight, we are currently witnessing a fundamental shift of emphasis in PA discourse, and even practice, from efficiency to effectiveness, i.e. in effect from getting something done cheaply to actually accomplishing one’s goal.

But even by the standards of business efficiency, NPM cannot be said to be successful from today’s perspective. We have no empirical evidence that NPM reforms have led to any productivity increase or welfare maximization. At best, one may say that “Several years of attempts and experiences of public management reforms in western Europe and other OECD countries give evidence of relative failure rather than success.” (van Mierlo 1998: 401; see Manning 2000, section “Did it work?” on global evidence along these lines – this is the web-page of the World Bank!) The catchword promises have empirically not been delivered – flat hierarchies are a matter of appropriateness and depend in their suitability entirely on context;

taking the citizen merely as customer takes away her participatory rights and duties and thus hollows out the state; the abolition of career civil service will usually let administrative capacity erode; depolitization – and thus de-democratization – leads to the return of the imperial bureaucrat (in its worst sense, disguised as the entrepreneurial bureaucrat – same power, less responsibility); and contracting-out has proven to be excessively expensive and often infringing on core competences of the state as well as on the most basic standards of equity. Total Quality Management is actually not necessarily an NPM concept; it can be just as well used elsewhere and was actually always understood to be part of a well-working PA; project management may frequently work, but as a principle and in the long run, it is more expensive and less responsible than the traditional approach.

The economics-based problems of NPM were in fact quite predictable, partially because it is not based on genuine economics, so that, for example, quasi-markets were created within administrative organizations in order to create market behavior. However, as any market theorist knows, such behavior can only develop in genuine and not in quasi- (i.e. pseudo-) markets. For example, if there are product monopolies and no free consumer choice – if one administrative institution is supposed to have a contract with a predetermined other, regarding a product or service that cannot be delivered by anyone else, for instance –, then there cannot be a free market either, nor its beneficial consequences. (See König 2001: 6-7)

Likewise, it would be difficult to argue today against the insight that humans do not maximize profits but, at best, benefits as perceived. (See only Falk 2003) They are not, and cannot act, the same everywhere; economic performance is culture-specific – the *homo oeconomicus* does not exist. Yet, NPM reforms “represent assumptions that one style of managing (whether in the public or the private sector) is best, and indeed is the only acceptable way.” (Peters 2001: 164) The similarities of New Public Management and standard textbook economics are particularly pronounced here.

The Role of the State

On the other hand, the state is neither dead nor incapacitated, as is usually implied in NPM-prone ideology, and as is perhaps more visible now than it was a decade or two ago. (Most readers will be familiar with the arguments in favor of the state, but for the argument’s sake, I will describe them here, with a specific public administration perspective.) Globalization is a challenge to state structures – widely understood as structured human consociation in space and time, rather than in a legalistic or in a specific sense such as the modern European nation state –; it does not make them obsolete, but rather more necessary than they ever were, because some form of institution must structure and make habitable the environment created as a “spill-over effect” by Globalization.

But even if we take a more narrow definition of state, if the 1990s have shown anything, it is the remarkable resilience of the state. Indeed, since 1989, we have more states than ever; the breakup of the Soviet Union and Yugoslavia, as well as of Czechoslovakia, are striking European

examples. What one thus has seen, at least in part, is the re-emergence not only of statehood, but even of the nation state.

Moreover, the EU, paradigm for times to come in all of Europe, is a state structure, constitutional crisis or not. There is a complex discussion about the legal “stateness” of the EU, but it certainly is a state if one uses a functional definition, which is what matters for PA and which is what is done here. What is more, the EU is a Continental “state”, organized and working along Continental, *viz.* French and/or German, lines.

Further, the state is not only as capable to act and as necessary as it ever was – the tools that challenge it, such as the new ways of communication and organization, have at the same time immensely increased its powers. Most importantly, key economic and development issues of today, sustainability, dynamic development, innovation, and technology, actually foster the role of the state in economic growth. (See Reinert 1999) The Schumpeterian, innovation-based world cannot be imagined without a capable state actor. If we follow Carlota Perez’ theory of Techno-Economic Paradigm Shifts (2002), then we are now entering the synergy phase of the Information and Communication Technology (ICT) surge – or Kondratieff –, which requires a particularly active state with strong administrative capacity.

And after all, these insights form much of the basis of the EU’s main development program, the Lisbon Strategy, which puts innovation as the basis of national and EU development, thus absolutely requiring a capable state. Even in light of the current crisis of the EU, as well as of the problems of the Lisbon Strategy’s implementation and ongoing dilution, the centrality of this agenda remains undiminished. One may even say that since it was primarily the fears of the effects of Globalization (and the functional elite’s disregard of those fears) which caused the crisis, the one strategy that addresses the causes and potential sources of those problems is more important than ever. And there is not much of an alternative anywhere – as Ha-Joon Chang says, the “plain fact is that the Neo-Liberal ‘policy reforms’ have not been able to deliver their central promise – namely, economic growth,” and that the “developing” countries grew better under the “bad” policies of 1960-1980. (2002: 128)

Fashion and Rhetoric

Why, then, the overwhelming dominance of NPM until a few years ago? Naturally, NPM is more than a fashion; as already stated, it is a genuine ideology, or based on one, the neo-liberal creed, in the sense that ideologies are reduced perspectives of reality, reified by their believers because they cannot handle the complexity of the latter. But the power of fashion in itself should never be underestimated, and as has been rightly said,

Public sector reform is in fashion and no self-respecting government can afford to ignore it. How a fashion is established is one of the most intriguing questions of public policy. Part of the answer lies in policy diffusion brought about by the activities of international officials (whose zeal for administrative reform mysteriously stops short at the door of their own organizations), by meetings of public administrators, academics, and the so-called policy entrepreneurs. (Wright 1997: 8)

Indeed,

the international vocabulary of management reforms carries a definite normative 'charge'. Within the relevant community of discourse ... the assumption has grown that particular things – performance management, TQM ... and so on – *are* progress. To be progressive one has to be seen to be doing things to which these particular labels can be stuck. ... Suggesting, for example, that an existing or new activity would be better placed within an enlarged central ministry or as a direct, state-provided service, becomes an uphill struggle – it is 'beyond the pale', not the done thing. (Pollitt and Bouckaert 2004: 201)

In PA, the problem is that on the one hand, experts are hired both on the basis of fashionability and of their capacity to suggest change, not to say that things should remain as they are – the main reason why international consultancy has gone strongly for NPM. On the other hand, for politicians it is very practical to turn to experts, because it alleviates them from the pressure to, first, find out what the proper decision should be and, second, to implement possibly unpopular measures. Under the cloak of efficiency, NPM specifically returns decision-making to the allegedly expert bureaucrat, therefore removing political control, and that also means political responsibility, from the political sphere. "It may be convenient for politicians to hide behind the smoke-screen of managerial decision and autonomy, but this hardly adds to the democratic quality of decision-making." (Wright 1997: 11)

For many a politician, the safest and most attractive-looking move is to follow fashion – and the weaker, the more insecure he is, the more this is the case. ("A statesman is a politician who uses expert advice but does not depend on it.") These are "the *symbolic and legitimacy benefits* of management reform. For politicians, these benefits consist partly of being seen to be doing something. ... They may gain in reputation – indeed may make a career out of – 'modernizing' and 'streamlining' activities." (Pollitt and Bouckaert 2004: 6) Rhetoric is what satisfies the demand; it does not mean that one has to do anything. The problem is only that at some point, in the not too long run, the demise of the state will progress too far, the public will realize that there are delivery problems, and not only public trust will erode even more.

The Weberian Model

The counter-model to NPM, indeed its *bête noire*, is what is called "Weberian PA". This label is highly problematic, as NPM presents a caricature of it and thus builds up a paper tiger. Its namesake himself, the great German sociologist and economist Max Weber, did not even particularly like the model of PA so described; he only saw it, rightly, as the most rational and efficient one for his time, and the one towards which PA would tend. That this is by and large still the case 80 years later if one looks at the model rather than at its caricature is something that would have probably surprised him quite a bit. (He also described, almost clairvoyantly, the NPM system, which for him was the most dehumanizing of organizational forms; see Samier 2001.)

Apart from the caricature, for Weber, the most efficient PA was a set of offices in which appointed civil servants operated under the principles of merit selection (impersonality), hierarchy, the division of labor, exclusive employment, career advancement, the written form, and legality. This increase of rationality – his key term – would increase speed, scope, predictability, and cost-effectiveness, as needed for an advanced mass-industrial society. (Weber 1922: esp. 124-130) And although we are well beyond such a world – and in what we may or may not call the “network society” –, these, or almost all of these, are not obsolete criteria, but in fact, they are exceedingly close to most of the recent large-scale principles of PA reform agendas worldwide, including the European Administrative Space’s main standards of reliability and predictability, openness and transparency, accountability, and efficiency and effectiveness (SIGMA 1998: 8-14). Most certainly, they are closer to responsible PA reform than the catchwords of NPM.

Regarding the specter of the *ancien régime* of traditional bureaucracy, part of almost every era’s and country’s folklore as it seems, it is important to realize that in general, “publicness / public sphere – politics – administration ... will remain, in spite of all modernization, a *culturally-founded tension*. Thus, the critique of bureaucracy will remain permanent as well.” (Laux 1993: 345) Yet, the alternative to bad PA – what “bureaucracy” is in common parlance – is not the abolition of PA, but good PA, one that works for state, society, and economy alike.

“The direct correlation between the capabilities of government and countries’ development ... is based on vast historical evidence. The most powerful nations’ strength and ability to create and distribute wealth cannot be explained without acknowledging the central role of public institutions.” (Echebarria 2001: 1) And this is not limited to the “First World”. Ever since the study by Evans and Rauch of 35 “developing” countries (1999), we also know empirically that Weberianism, especially the Merit principle, “significantly enhance[s] prospects of economic growth.” (748) And these findings have been backed up most recently by the fact that Weberianism has worked very well indeed in the transition states of Central and Eastern Europe, in that the ranking of their economic and social success, especially if one looks at Hungary, is not by accident very similar to that of their Weberianness.

As the very last argument, doesn’t information and communication technology (ICT) change this? In a world of e-governance, isn’t Weberianism, new or old, hopelessly obsolete? As all research on the subject matter has shown – although this is perhaps the most fashionable field of research, and thus the one with the worst overall results –, it is not. The written form does not become less real if it takes the form of an e-mail or a website rather than of a letter or physical ledger; in a way, perhaps more so, because it is more accessible. Hierarchy and subsidiarity, control and information flow, but also standardization and the division of labor were never as easy as with ICT. The hierarchy issue is the one that may be debated, but it, too, has several sides, including that it may be communication and not layers that truly matters in a network society, and that the principle of subsidiarity actually requires a hierarchical organizational set-up. (See Drechsler 2005b)

The Neo-Weberian State

And yet, of course there are legitimate problems with many a bureaucracy, there are still very self-centered administrations that hinder economic development rather than fostering it, there is the frequent legalistic domination of PA – and of lawyers within the civil service – that is preventing a problem-solving approach, and there are organizational changes and other shifts in public life that distance us from the Twenties. But the Weberian system has actually (been) adapted to them very successfully, as Continental PA always has. Both to characterize these and to denote a post-post-NPM, synergetic system of PA, perhaps a specifically European one that is not a NPM “laggard” but the opposite, Pollitt and Bouckaert, in what is now the standard book on *Public Management Reform*, have coined in the second edition (September 2004) the term “Neo-Weberian State” or NWS. I think it is wise to accept that label for the sake of clarity and uniformity, even if I do not agree completely with all details (for my earlier thought on the matter, see Drechsler 2003, 2005a, upon which much of the current article is based), and even though the Weber label might not be “cool” enough for the consultancy circuit. The respective outline of the NWS will be quoted here in full, rather than paraphrased:

‘Weberian’ Elements

- Reaffirmation of the role of the state as the main facilitator of solutions to the new problems of globalization, technological change, shifting demographics, and environmental threat
- Reaffirmation of the role of representative democracy (central, regional, and local) as the legitimating element within the state apparatus
- Reaffirmation of administrative law – suitably modernized – in preserving the basic principles pertaining to the citizen-state relationship, including equality before the law, legal security, and the availability of specialized legal scrutiny of state actions
- Preservation of the idea of a public service with a distinct status, culture, and terms and conditions

‘Neo’ Elements

- Shift from an internal orientation towards bureaucratic rules towards an external orientation towards meeting citizens’ needs and wishes. The primary route to achieving this is not the employment of market mechanisms (although they may occasionally come in handy) but the creation of a professional culture of quality and service
- Supplementation (not replacement) of the role of representative democracy by a range of devices for consultation with, and direct representation of, citizens’ views (...)
- In the management of resources within government, a modernization of the relevant laws to encourage a greater orientation on the achievements of results rather than merely the correct following of procedure. This is expressed partly in a shift from *ex ante* to *ex post* controls, but not a complete abandonment of the former
- A professionalization of the public service, so that the ‘bureaucrat’ becomes not simply an expert in the law relevant to his or her sphere of activity, but also a professional manager, oriented to meeting the needs of his or her citizen/users (99-100)

What I would propose, quite in Weber's sense, is that this is not only a classification or analytical model, it is also once again a normative one: An administrative system generally works better, of course depending on time and place, the closer it is to the NWS. We have seen why, I think.

Good Governance: The Back Door

This being realized, it is now important to beware of the "thief that cometh in the night." NPM may be in demise – but what about the currently ever-so-popular concept of Good Governance? Arising, once again, in the 1980s in the International Finance Institutions (IFI's), this was a positive extrapolation from the negative experiences that these organizations had had in the "developing" countries by observing that financial aid seemed to have had no effects. From this, they deduced an absence of institutions, principles, and structures, the entirety of which was called "Governance" – and "Good Governance" when they worked well. A good idea as such – but the provenience, the same as with NPM, may make us halt, and rightly. (See Doornbos 2004)

By and large, the term "Governance" has by now become a more or less neutral concept that focuses on steering mechanisms in a certain political unit, emphasizing the interaction of state (First), business (Second), and society (Third Sector) players. "Good Governance", on the other hand, is not at all neutral; rather, it is a normative concept that again embodies a strong value judgment in favor of the retrenchment of the state, which is supposed to yield to Business standards, principles, and – not least – interests. In that sense, "Good Governance" privileges the Second over the First Sector, even in First Sector areas.

The Hatter ... had taken his watch out of his pocket, and was looking at it uneasily....
"Two days wrong! ... I told you butter wouldn't suit the works!" he added, looking angrily at the March Hare.

"It was the *best* butter," the March Hare meekly replied. (Carroll 1865)

As this implies,

'Good', like its superlative, is often a relative term, meaning 'good of its kind', or for its standard purpose, whatever that may be. Failing such a reference, the judgment of goodness is indeterminate, and cannot be applied or debated without risk of confusion. [Thus, the March Hare's statement is right in that the butter was best] as butter goes, no doubt, but not as a mechanical lubricant. (Heath1974: 68 N5)

The same is true, of course, regarding the "Good" in "Good Governance": It is not good in any general or generalizable sense, but as pertains to what most of the IFI's in the 1980s thought was good – a perspective that today is probably not shared by many experts anymore, including those within the IFI's themselves. And indeed, what the respective IFI's held to be good in the 1980s was neo-liberalism, the Free Market as a world view, and thus the retrenchment of the state.

Within the state sector itself, many of the principles of "Good Governance" are therefore identical with NPM. And while a unitary definition of the concept never existed, not even within the

respective individual IFI's, "good" principles usually encompassed such concepts as transparency, efficiency, participation, responsibility, and market economy, state of law, democracy, and justice. Many of them are indubitably "good" as such, but all of them – except the last one, which is the most abstract – are heavily context-dependent, hinging not only on definition and interpretation, but also on time and place. Critics from the "developing" countries thus often saw and see the demand for "Good Governance" as a form of Neo-Colonialist Imperialism and as part of negative Globalization, since it demands the creation of institutions and structures *before* economic development, while all wealthy countries of the "West" established them only afterwards.

Inspired by, but in the end independently from, the development discourse, the terms "Governance" and – to a lesser, but still significant degree – "Good Governance" soon traveled into the parlance of general social science and policy discussions. The problem is that the underlying ideology has not fully been realized, and that "Good Governance" is often still thought to be good governance, even by otherwise quite sophisticated Third Sector representatives, especially from activist NGO's, who view the concept as one that integrates them into First Sector processes. But no good governance, and no NGO participation either, is possible without a well-working government to begin with – and that means, among other things, no weakening of state capacity, and no NPM.

Intellectual Post-Mortem

Actually, for a post-mortem of New Public Management (NPM), it may seem a bit early, seeing in how many places one still can get away with it. But in a very classical sense, the head of the movement – to avoid a more rhetorical metaphor from the animal kingdom – seems to have been cut off, or at least to have disappeared. In other words, it has become quite rare during the last five years, and is becoming rarer still, to see articles in the very top journals, or essays and keynote addresses by the very top PA scholars – especially in Europe, but also in the United States –, based on, or implicitly assuming the validity, of NPM.

In that sense, it is legitimate to speak of the demise of NPM, and to already investigate what stopped it – all the more interesting because of the lessons this may present for standard textbook economics (STE). Because after all, NPM was a formidable, genuine paradigm, backed by the self-logic of the profession, the mightiest donors, and most importantly, the *zeitgeist*, the sense of "coolness" it had, and the catering to prejudices – based as often on genuine grievances as on mere modern folklore – against bureaucracy and the state as such.

Here one can only speculate for the moment and look at the arguments against NPM presented before. One of the key reasons why it could not last is that PA is a very heterogeneous field of scholarship, combining scholars from a variety of backgrounds and a variety of contemporary disciplines, such as law, political science, and public administration proper. It was always possible to receive a chair, for instance, even if one was fundamentally anti-NPM. In addition, the field of PA as a scholarly discipline is quite small, and the pyramid of scientific prestige is very narrow at the top, so a few very senior scholars and a few key publications really can make a difference.

A third reason is that there were many PA scholars and practitioners from pre-NPM times who had never liked the concept, be it for good or – such in the case of Continental lawyers and old-fashioned bureaucrats – for bad reasons. They were only too willing to see it go, and they jumped at possibilities, like the Neo-Weberian State (NWS), to be modern yet not to give up their organizational principles. (This is why it is so important to see the post-post-NPM quality of the NWS, which is neither pre-NPM nor post-NPM in the sense of anti-NPM, and to take the “neo”-elements seriously.)

Before this background, the plain and empirically observable fact that NPM simply does not work, even by its own strict set of criteria – that it does not deliver, that it does not create greater business efficiency, let alone state effectiveness, that it is expensive, disruptive, and in the end useless, that it is heavily ideological, overly simple, diametrically opposed to economic growth and especially development, and politically charged by a specific perspective, that of neo-liberalism – could have the effect that it toppled as a paradigm.

In comparison to economics, what that means is that what is usually a negative feature of PA, its interdisciplinarity and thus lack of clear method, and its small scope, were actually very beneficial in this case, because NPM never created, on the scholarly level, the kind of institutional rigidity that STE was able to achieve. It was always much more easy to make a career in PA as an anti-NPM scholar than it is as an anti-STE scholar in economics. But still, there were and even are a lot of vested interests in NPM, and thus, it may be encouraging from a Post-Autistic Economics perspective to see that a prevailing paradigm may fall – mainly, in the end, “just” because it does not work.

Conclusion

The price paid for NPM reforms anywhere has been high:

the years following the Washington Consensus were dominated by reforms based on the idea that less government is better, when the correct idea would have been that better government is better. Privatization, deregulation, decentralization, and simple cessation and abandonment of entire sectors of activity because of insufficient resources, marked the reform agenda. ... in more than a few cases, the result was a rickety, disjointed government, defenseless in the face of problems for which it nevertheless remains responsible to society, and whose credibility has been undermined by the ideological devaluation that accompanied reform. (Echebarría 2001: 2, on Latin America)

The key to successful PA reform, vital as it is not only, but also, for economic growth, as well as, if you will, for good governance, is to strengthen administrative capacity and competence of a responsive and responsible state. The optimal solution for this is a genuine post-post-NPM system, Weberian-based but with the lessons from NPM learned, which – and this is not less right for being a cliché – puts the human person into the center of administrative decision-making. And this is a Neo-Weberian State, with attention to the specific local reality, and with the final goal, as

always, of the Good Life in the Good State. (See Drechsler 2003) PA, especially in Europe, is on the best way thither. It remains to be seen when, and how, economics can follow.

Note

This essay is based on a paper for a seminar at the Europaprogrammet in Oslo, presented on 21 December 2004. Some parts have been adapted from Drechsler 2005a, 2004, and 2003. Helpful comments on the current version by Ingbert Edenhofer, Rainer Kattel, Dennis Ch. Pachernegg, Erik S. Reinert, and Eugenie Samier, as well as funding from ETF5780, are gratefully acknowledged.

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SUGGESTED CITATION:

Wolfgang Drechsler, "The Rise and Demise of the New Public Management", *post-autistic economics review*, issue no. 33, 14 September 2005, pp. 17-28, <http://www.paecon.net/PAERReview/issue33/Drechsler33.htm>

People's Choices Affect One Another: Power Laws, Weblogs, and Inequality

Clay Shirky (New York University, USA)

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A persistent theme among people writing about the social aspects of weblogging is to [note](#) (and usually [lament](#)) the rise of an A-list, a small set of webloggers who account for a majority of the traffic in the weblog world. This complaint follows a common pattern we've seen with MUDs, BBSes, and online communities like Echo and the WELL. A new social system starts, and seems delightfully free of the elitism and cliquishness of the existing systems. Then, as the new system grows, problems of scale set in. Not everyone can participate in every conversation. Not everyone gets to be heard. Some core group seems more connected than the rest of us, and so on.

Prior to recent theoretical work on social networks, the usual explanations invoked individual behaviors: some members of the community had sold out, the spirit of the early days was being diluted by the newcomers, et cetera. We now know that these explanations are wrong, or at least beside the point. What matters is this: Diversity plus freedom of choice creates inequality, and the greater the diversity, the more extreme the inequality.

In systems where many people are free to choose between many options, a small subset of the whole will get a disproportionate amount of traffic (or attention, or income), even if no members of the system actively work towards such an outcome. This has nothing to do with moral weakness, selling out, or any other psychological explanation. The very act of choosing, spread widely enough and freely enough, creates a power law distribution.

A Predictable Imbalance <#>

Power law distributions, the shape that has spawned a number of catch-phrases like the 80/20 Rule and the Winner-Take-All Society, are finally being understood clearly enough to be useful. For much of the last century, investigators have been finding power law distributions in human systems. The economist Vilfredo Pareto observed that wealth follows a "predictable imbalance", with [20% of the population holding 80% of the wealth](#). The linguist George Zipf observed that [word frequency](#) falls in a power law pattern, with a small number of high frequency words (I, of, the), a moderate number of common words (book, cat cup), and a huge number of low frequency words (peripatetic, hypognathous). Jacob Nielsen observed [power law distributions in web site page views](#), and so on.

We are all so used to bell curve distributions that power law distributions can seem odd. The shape of Figure #1, several hundred blogs ranked by number of inbound links, is roughly a power law distribution. Of the 433 listed blogs, the top two sites accounted for fully 5% of the inbound links between them. (They were InstaPundit and Andrew Sullivan, unsurprisingly.) The top dozen (less than 3% of the total) accounted for 20% of the inbound links, and the top 50 blogs (not quite 12%) accounted for 50% of such links.

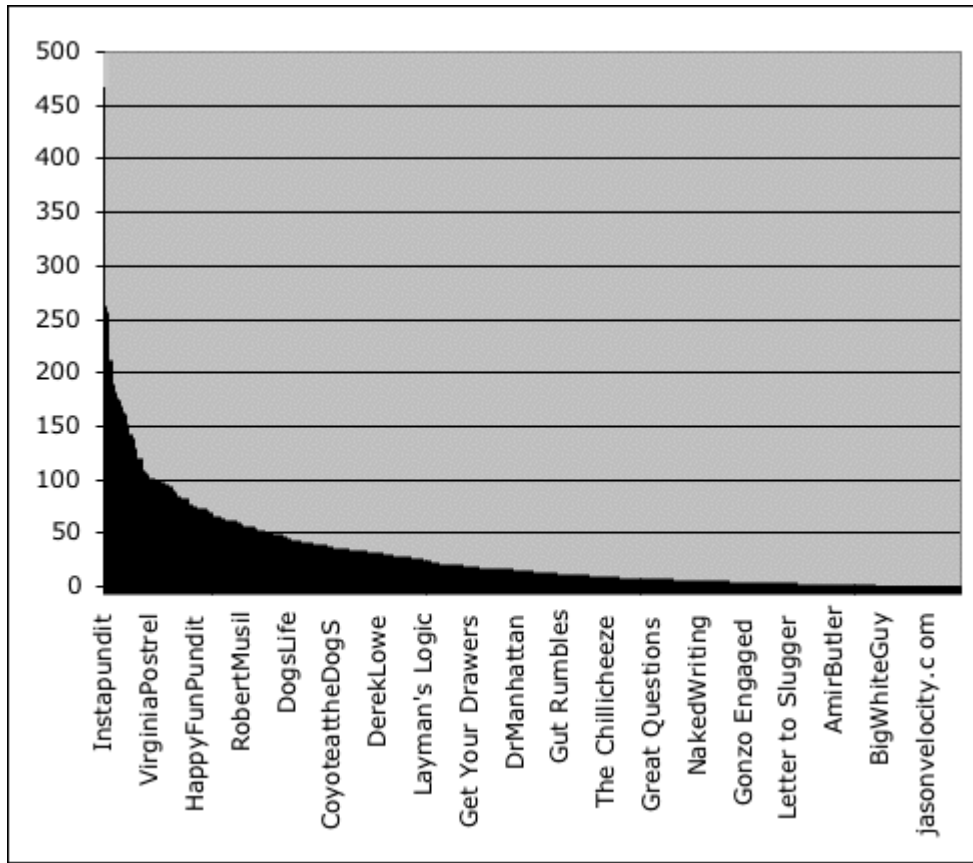


Figure #1: 433 weblogs arranged in rank order by number of inbound links. The data is drawn from N.Z. Bear's 2002 work on the [blogosphere ecosystem](#). The current version of this project can now be found at <http://www.myelin.co.nz/ecosystem/>.

The inbound link data is just an example: power law distributions are ubiquitous. Yahoo Groups mailing lists ranked by subscribers is a power law distribution. (Figure #2) LiveJournal users ranked by friends is a power law. (Figure #3) Jason Kottke has graphed the power law distribution of [Technorati link data](#). The traffic to this article will be a power law, with a tiny percentage of the sites sending most of the traffic. If you run a website with more than a couple dozen pages, pick any time period where the traffic amounted to at least 1000 page views, and you will find that both the page views themselves and the traffic from the referring sites will follow power laws.



Figure #2: All mailing lists in the Yahoo Groups Television category, ranked by number of subscribers (Data from September 2002.)

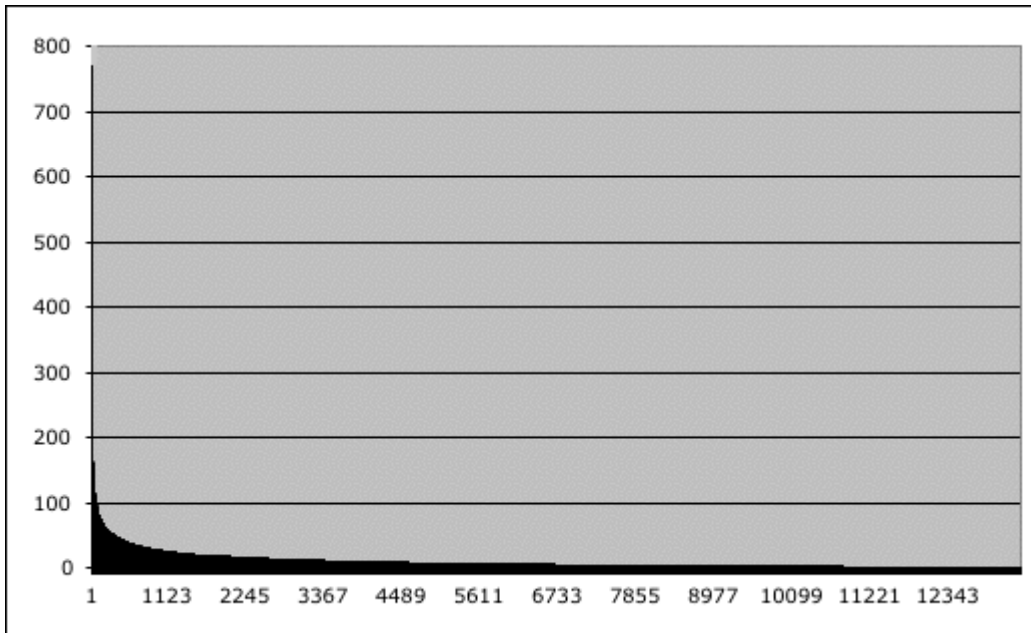


Figure #3: LiveJournal users ranked by number of friends listed. (Data from March 2002)

Rank Hath Its Privileges

The basic shape is simple - in any system sorted by rank, the value for the Nth position will be $1/N$. For whatever is being ranked -- income, links, traffic -- the value of second place will be half

that of first place, and tenth place will be one-tenth of first place. (There are other, more complex formulae that make the slope more or less extreme, but they all relate to this curve.) We've seen this shape in many systems. What've we've been lacking, until recently, is a theory to go with these observed patterns.

Now, thanks to a series of breakthroughs in network theory by researchers like [Albert-Laszlo Barabasi](#), [Duncan Watts](#), and [Bernardo Huberman](#) among others, breakthroughs being described in books like [Linked](#), [Six Degrees](#), and [The Laws of the Web](#), we know that power law distributions tend to arise in social systems where many people express their preferences among many options. We also know that as the number of options rise, the curve becomes more extreme. This is a counter-intuitive finding - most of us would expect a rising number of choices to flatten the curve, but in fact, increasing the size of the system increases the gap between the #1 spot and the median spot.

A second counter-intuitive aspect of power laws is that most elements in a power law system are below average, because the curve is so heavily weighted towards the top performers. In Figure #1, the average number of inbound links (cumulative links divided by the number of blogs) is 31. The first blog below 31 links is 142nd on the list, meaning two-thirds of the listed blogs have a below average number of inbound links. We are so used to the evenness of the bell curve, where the median position has the average value, that the idea of two-thirds of a population being below average sounds strange. (The actual median, 217th of 433, has only 15 inbound links.)

Freedom of Choice Makes Stars Inevitable #

To see how freedom of choice could create such unequal distributions, consider a hypothetical population of a thousand people, each picking their 10 favorite blogs. One way to model such a system is simply to assume that each person has an equal chance of liking each blog. This distribution would be basically flat - most blogs will have the same number of people listing it as a favorite. A few blogs will be more popular than average and a few less, of course, but that will be statistical noise. The bulk of the blogs will be of average popularity, and the highs and lows will not be too far different from this average. In this model, neither the quality of the writing nor other people's choices have any effect; there are no shared tastes, no preferred genres, no effects from marketing or recommendations from friends.

But people's choices do affect one another. If we assume that any blog chosen by one user is more likely, by even a fractional amount, to be chosen by another user, the system changes dramatically. Alice, the first user, chooses her blogs unaffected by anyone else, but Bob has a slightly higher chance of liking Alice's blogs than the others. When Bob is done, any blog that both he and Alice like has a higher chance of being picked by Carmen, and so on, with a small number of blogs becoming increasingly likely to be chosen in the future because they were chosen in the past.

Think of this positive feedback as a preference premium. The system assumes that later users come into an environment shaped by earlier users; the thousand-and-first user will not be selecting blogs at random, but will rather be affected, even if unconsciously, by the preference premiums built up in the system previously.

Note that this model is absolutely mute as to why one blog might be preferred over another. Perhaps some writing is simply better than average (a preference for quality), perhaps people want the recommendations of others (a preference for marketing), perhaps there is value in reading the same blogs as your friends (a preference for "solidarity goods", things best enjoyed by a group). It could be all three, or some other effect entirely, and it could be different for different readers and different writers. What matters is that any tendency towards agreement in diverse and free systems, however small and for whatever reason, can create power law distributions.

Because it arises naturally, changing this distribution would mean forcing hundreds of thousands of bloggers to link to certain blogs and to de-link others, which would require both global oversight and the application of force. Reversing the star system would mean destroying the village in order to save it.

Inequality and Fairness #

Given the ubiquity of power law distributions, asking whether there is inequality in the weblog world (or indeed almost any social system) is the wrong question, since the answer will always be yes. The question to ask is "Is the inequality fair?" Four things suggest that the current inequality is mostly fair.

The first, of course, is the freedom in the weblog world in general. It costs nothing to launch a weblog, and there is no vetting process, so the threshold for having a weblog is only infinitesimally larger than the threshold for getting online in the first place.

The second is that blogging is a daily activity. As beloved as Josh Marshall (TalkingPointsMemo.com) or Mark Pilgrim (DiveIntoMark.org) are, they would disappear if they stopped writing, or even cut back significantly. Blogs are not a good place to rest on your laurels.

Third, the stars exist not because of some cliquish preference for one another, but because of the preference of hundreds of others pointing to them. Their popularity is a result of the kind of distributed approval it would be hard to fake.

Finally, there is no real A-list, because there is no discontinuity. Though explanations of power laws (including the ones here) often focus on numbers like "12% of blogs account for 50% of the links", these are arbitrary markers. The largest step function in a power law is between the #1 and #2 positions, by definition. There is no A-list that is qualitatively different from their nearest neighbors, so any line separating more and less trafficked blogs is arbitrary.

The Median Cannot Hold #

However, though the inequality is mostly fair now, the system is still young. Once a power law distribution exists, it can take on a certain amount of homeostasis, the tendency of a system to retain its form even against external pressures. Is the weblog world such a system? Are there

people who are as talented or deserving as the current stars, but who are not getting anything like the traffic? Doubtless. Will this problem get worse in the future? Yes.

Though there are more new bloggers and more new readers every day, most of the new readers are adding to the traffic of the top few blogs, while most new blogs are getting below average traffic, a gap that will grow as the weblog world does. It's not impossible to launch a good new blog and become widely read, but it's harder than it was last year, and it will be harder still next year. At some point (probably one we've already passed), weblog technology will be seen as a platform for so many forms of publishing, filtering, aggregation, and syndication that blogging will stop referring to any particularly coherent activity. The term 'blog' will fall into the middle distance, as 'home page' and 'portal' have, words that used to mean some concrete thing, but which were stretched by use past the point of meaning. This will happen when head and tail of the power law distribution become so different that we can't think of J. Random Blogger and Glenn Reynolds of [Instapundit](#) as doing the same thing.

At the head will be webloggers who join the mainstream media (a phrase which seems to mean "media we've gotten used to.") The transformation here is simple - as a blogger's audience grows large, more people read her work than she can possibly read, she can't link to everyone who wants her attention, and she can't answer all her incoming mail or follow up to the comments on her site. The result of these pressures is that she becomes a broadcast outlet, distributing material without participating in conversations about it.

Meanwhile, the long tail of weblogs with few readers will become conversational. In a world where most bloggers get below average traffic, audience size can't be the only metric for success. LiveJournal had this figured out years ago, by assuming that people would be writing for their friends, rather than some impersonal audience. Publishing an essay and having 3 random people read it is a recipe for disappointment, but publishing an account of your Saturday night and having your 3 closest friends read it feels like a conversation, especially if they follow up with their own accounts. LiveJournal has an edge on most other blogging platforms because it can keep far better track of friend and group relationships, but the rise of general blog tools like Trackback may enable this conversational mode for most blogs.

In between blogs-as-mainstream-media and blogs-as-dinner-conversation will be Blogging Classic, blogs published by one or a few people, for a moderately-sized audience, with whom the authors have a relatively engaged relationship. Because of the continuing growth of the weblog world, more blogs in the future will follow this pattern than today. However, these blogs will be in the minority for both traffic (dwarfed by the mainstream media blogs) and overall number of blogs (outnumbered by the conversational blogs.)

Inequality occurs in large and unconstrained social systems for the same reasons stop-and-go traffic occurs on busy roads, not because it is anyone's goal, but because it is a reliable property that emerges from the normal functioning of the system. The relatively egalitarian distribution of readers in the early years had nothing to do with the nature of weblogs or webloggers. There just weren't enough blogs to have really unequal distributions. Now there are.

Note: This article was first published February 8, 2003 on the "Networks, Economics, and Culture" mailing list. to the mailing list.

SUGGESTED CITATION

Clay Shirky, "People's Choices Affect One Another: Power Laws, Weblogs, and Inequality", *post-autistic economics review*, issue no. 33, 14 September 2005, pp 29-35, <http://www.paecon.net/PAEReview/issue33/Shirky33.htm>

Symposium on Reorienting Economics (Part V)

Dialogue on the reform of economics with Tony Lawson's *Reorienting Economics* as focal point

Critical Realism in Economics – a different view

Bjørn-Ivar Davidsen (Ostfold University College, Norway)

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Introduction

Among the new perspectives introduced to the discipline of economics the last few decades, critical realism, for various reasons, stands out as one of the most challenging. Two seminal books by Tony Lawson, *Economics & Reality* and *Reorienting Economics*, have played a pivotal role in the developments so far, setting the agenda for the unfolding of a critical realist project within economics. In perspective, it turns out that Lawson and his close followers downplay endeavours aimed at developing critical realist-inspired analyses of substantive economic phenomena and issues. Rather, they choose to delimitate the scope of the project to philosophical underlabouring for various scientific practices within the discipline. The overall goal of these endeavours seems to be to reorient the whole discipline of economics towards increased attention to ontological questions in general, and especially to the ontological theories embodied in the critical realist position.

It is my purpose here to question this strategy of developing a critical realist project within economics. I will argue that the attempts made to establish dialogues with various existing mainstream and heterodox positions by way of critical endeavours and invitations to ontological unification and co-development have been less than successful so far and that the prospects of any future success are equally dim. One of the main reasons why is due to the fact that critical realists tend to endow the ontological theories central to their project with undue status and credibility. The properties of critical realist ontological theories do not render them apt as arbiters in critical endeavours or as some sort of unifying or common ontological basis for various heterodox schools of thought. In fact, I will argue that critical realist ontological theories are primarily, and perhaps only, suited for the one purpose that critical realists within economics seems to eschew – for establishing a basis for the development of critical realist-inspired analyses of substantive economic questions and issues.

In order to contribute to a process of looking in this direction I will offer some suggestions as to how tenable critical realist-informed economic theorising and substantive analyses may be developed from the philosophical stances and the general ontological theories of critical realism. In this critical realist-inspired approach to economics, ontological theorising is embedded in, or made part of, the overall scientific endeavours. According to this view then, critical realism can, and should, define itself as one among a range of other approaches to economic enquiries in a true pluralist fashion rather than as some common philosophical underpinning of already existing schools of thought. At the end of the day assessments of such a critical realist approach to economics would be due to its adherents' ability to shed light on old as well as new problems and issues pertaining to the realm of economics.

Situating critical realism and the role of ontology

Critical realism is a fairly new project within the discipline of economics. As with any newcomer to a well-established academic tradition it has taken the proponents of the project some time to find its place and role. We do now, however, see a pattern emerging. To most external observers, whether sympathetic or hostile to the project, critical realism was at first noted for its far-reaching critique of mainstream economics. The purpose of these critical endeavours seemed to be aimed at discarding most of what goes for mainstream economics as part of a strategy advocating critical realist approaches to economic analyses. With time, however, it has become increasingly clear that Lawson and his close followers rather aspire at generating dialogues with various schools of thought within the discipline – mainstream as well as heterodox.

The critical realist attempt at establishing a dialogue with mainstream economics is mainly based on critical assessments of the latter. At a general level the critique is due to a charge arguing a mismatch between the mathematical-deductive methods allegedly adhered to by mainstream economists and the properties of social reality as seen by critical realists. According to critical realism social reality is an open and evolving system comprised of intentional individual agents and emerging, layered social structures. The social structures of society are argued to enable and restrict individual actions, while at the same time being reproduced and potentially transformed by such agency. Mainstream economics is considered unable to capture this reality due to its adherence to a deductive mode of explanation in which event regularities of the form ‘whenever event x then event y’ are claimed to play a crucial role. Moreover, reinforcing these allegations, it is stated that mainstream economics is confined to analyses of issues pertaining to ‘closed systems’, defined as systems in which event regularities occur or obtain.¹ The implication of the critical realist critique then, amounts to urging mainstream economists to re-tailor their analytical tools to fit the basic features of social reality, as viewed by adherents of critical realism.

As opposed to the mainstream position within economics, critical realists do find that they have a lot in common with several schools of thought within the heterodox tradition. Initially, adherents of the critical realist programme approached heterodox economics through studies of the works of a number of outstanding representatives of such positions, like Commons, Hayek, Kaldor, Keynes, Marshall and Marx. It has been argued that these, and other, highly respected contributors to various heterodox traditions actually incorporated important aspects of critical realist thinking in their work, albeit spelled out in a different vocabulary.² These insights have recently been further developed, and the critical realist dialogue with heterodox economics now turns on the argument that, as a number of schools of thought within this tradition allegedly share basic ontological understandings with the critical realist position, they would benefit from redefining themselves under a common critical realist ontological banner. Critical realism would then be considered a position providing a common ontological basis for schools of thought whose identity would flow not from different ontologies but rather from the aspects of a common ontology upon which they choose to focus. The heterodox positions in question would, in other words, be rendered distinct according to a division of labour within a collective framework predicated upon critical realist ontology.³

A strategy for future development along these lines would contribute, it is argued, to increased awareness of commonalities as well as distinguishing features accruing to positions within the

heterodox tradition. More specifically, a unification and 'linked co-development' based upon an acceptance of, or subscription to, critical realist ontology would allegedly provide:

philosophical resources that can help heterodox economists to make explicit, clarify and systematise their insights into the nature of socio-economic being and its implications for appropriate methodology for economics. (Lewis 2004: 2)

Possible virtues of such critical realist underlabouring are illustrated when Lawson (2003a) intervenes philosophically in a number of heterodox positions with critical realist ontology as a reference point. In the analyses overlaps with critical realist ontology are indicated and deficiencies and weaknesses of embedded ontological presuppositions noted, according to the critical realist perspective.

As critical realists apparently have had a lot to say about the academic practices of others, it is no wonder that they have been asked how they themselves would go about analysing substantive economic issues or developing economic theories. Lawson (1999) reports of such queries and provides at the same time an answer:

Probably the 'request' I come across most frequently in the context of discussing critical realism is for examples of 'critical realist substantive theory' meaning *the* critical realist account of some highly concrete phenomena. In my view there can be no such thing. (Lawson 1999: 14; italics in original)

The arguments Lawson offers for this stance towards critical realist economic theorising and critical realist analyses of substantive economic issues are once again ontological. Lawson draws attention to the fact that critical realist ontology depicts social reality as 'open, structured, dynamic, and in part holistic'. Consequently, critical realist ontology, so the argument goes, can sustain a range of theories and explanations. Theories and explanations supported by this ontology may even stand out as competing scientific accounts of the same phenomenon, and they may have to be considered explanations more or less in continuous change and transition. Accordingly, it is stated that 'at no stage can a substantive theory be said to qualify as *the* critical realist one.' (Lawson 2003: 178, italics in original)

Now, these arguments may seem somewhat bewildering. First of all, I do question if critical realists are notoriously requested to come up with *the* critical economic realist theory or *the* critical realist account of any economic phenomena. We are all well aware of the fact that critical realism is a budding project within the discipline of economics. Accordingly, no one expects critical realists to come up at this stage with *the* critical realist account of any issue, theoretical or practical. If such a thing were ever to occur it would, of course, take a considerable amount of time to be worked out. Moreover, most of us would, on grounds that Lawson rightly points out, not expect *the* critical realist account of anything to be possible or even something to be strived for – just as we do not ask for *the* post Keynesian, *the* institutionalist etc. account or theory of concrete economic issues or phenomena.

What in my view, however, is a fair question to ask, and what is in fact the question I myself have heard raised by many taking interest in the perspectives brought to fore by critical realism, is for *examples* of critical realist studies of substantial economic issues and phenomena. What is asked for are, in other words, illustrating analyses indicating what difference it would make if economic theorising and analyses of concrete economic phenomena started out from, or at least explicitly

incorporated, serious ontological reflection pertaining to the issues and questions at hand. Critical realists do, however, seem to refrain from going into such matters. The arguments brought up against the possibilities of providing *the* critical realist account or theory of substantive economic phenomena tend to be considered a good reason for not attempting to provide *any* critical realist account of them.⁴

The aspirations of the current critical realist project within economics then tend to be directed towards establishing a pluralistic discourse at the level of economic theory and methodology based upon a critical realist monist understanding of social reality. A barrier is more or less erected between philosophical deliberations on the one hand and theoretical and empirical work on the other, with critical realists thriving on the philosophical side of the fence. The activities undertaken, or aimed at, are often referred to as 'philosophical underlabouring' for scientific practice within the field of economics.

A critical realist project within economics thus conceived, however, has so far experienced limited success. As several commentators have argued, the critique levelled against mainstream economics is ineffective due to distorted descriptions and characterisations of the latter.⁵ Leaving these important problems of inaccurate and distorted descriptions of the practices of mainstream economics aside for now, I would like to draw attention to the ontological aspects of the critical realist critique. The critique states, it will be remembered, that there is a mismatch between the mathematical-deductive methods of mainstream economics and the properties of social ontology as claimed by critical realists. What would be required then, for such a critique to actually be paid attention to by mainstream economists?

For one thing, mainstream economists would have to be concerned about questions ontological. They would, in other words, have to be seriously concerned with the question whether their models and theories actually capture some systematic ontological account of social reality. Being somewhat reluctant to characterising all of mainstream economics in sweeping and general terms, I find it quite safe to submit that mainstream economists tend to favour different criteria for evaluating their theories and models. In the mainstream scheme of things criteria pertaining to formal consistency, elegance, simplicity, tractability, and more generally 'what works', seem to be held in high esteem. If some sort of methodological position were to be ascribed to at least much of current mainstream economics, I do find 'pragmatism' in some broad sense the best candidate. In any case, critical realist appeals to criteria of evaluation pertaining to questions of ontology seems to be a far cry from what occupies the minds of most mainstream economists.

And even if we, at least for the sake of the argument, envisage mainstream economists in near future persuaded to consider how questions of ontology might impinge upon their work, we all know that there are several theories out there offering competing accounts of basic questions pertaining to 'existence' and 'being'. Are there, then, any reasons why the ontological theories of critical realism would occupy some sort of privileged position in this race? This is a most important question which needs to be convincingly answered in the affirmative if the critical realist critique of mainstream economics is to encompass any prospects of success in the future.

Turning to the critical realist solicitations with heterodox positions the question of identity needs to be addressed. Will the identity of the respective heterodox schools of thought, some of them well established since ages, be preserved if they were to join up with other positions in a linked co-

development based upon critical realist ontology? If the prospects for identity retainment are considered dim, how would this fact affect adherents of the respective programmes and positions? In my view, possible dissenting and opposing attitudes stemming from such considerations should not be underestimated. Evidence so far seems to corroborate such scepticism. With the exception of the post Keynesian school of thought, most positions approached by the critical realist solicitation seem to respond with different degrees of reluctance and polite distancing.⁶

Relevant as fear of, and opposition to, possible identity debasements may be, reluctant responses to the critical realist invites may also be due to considerations of a different and perhaps more fundamental character. It might be the case that critical realists tend to overrate the scope of ontological overlaps amongst heterodox positions within economics and between such positions and the critical realist view of social reality. And to the extent that the suggested unification and co-development were to require adjustments of implicit or explicit ontological presuppositions pertaining to different heterodox positions in order to bring them in line with critical realist ontology, the questions arises as to how such an implied privileged position for the latter is, or can be, justified. In my view, this is an essential question that needs to be addressed also when considering the future prospects of the critical realist invitation to the heterodox schools of thought.

To take stock, it seems that proponents of the critical realist position within economics aim at establishing critical realism as a philosophical project engaging itself in critical and constructive dialogues with various schools of thought within the discipline. Questions of ontology play a pivotal role in the endeavours. The critique launched against the practices of mainstream economists is predicated upon critical realist social ontology. Mainstream economists are deplored for an adherence to modes of explanation that allegedly cannot capture social reality as spelled out in the critical realist account of the social realm. Moreover, in dialogues with heterodox positions within economics, arguing the case for moves towards unification and co-development, critical realist ontology is set forth as the gathering point for such activities. And when critical realists explain why they tend to downplay, or abstain from, substantive economic theorising and analyses of concrete economic issues, the arguments are couched in terms of properties pertaining to social reality as seen by critical realists. A heavy burden is consequently laid on the shoulders of critical realist ontology. The prospects of any future success of the chosen strategy of situating critical realism within economics is crucially dependent upon the status or credibility that can be ascribed to the critical realist ontological account of social reality.

Assessing critical realist ontological theories

The argument set forth in the critical realist account of social reality makes the claim that society must be understood as made up by intentional actors as well as social structures with emergent powers which enable and facilitate, but also restrict and direct, individual action. Social structures are conceived as pre-existing individual actions, and are thus irreducible to them. However, by employing social structures in planning and performing individual action, the agents contribute to reproducing and transforming these structures. The account offered then, represents an elaboration of the agency-structure problem in which the links between actions and structures are

carefully argued. In this critical realist account social reality is, moreover, claimed to be an open system in a broad sense of this term

In what sense, one might ask, will such an account pertaining to the level of ontology differ from scientific theories of social reality or some delimited aspects of it? The distinction is mainly due to differences in the degree of specificity. An ontological account of social reality is kept at a rather abstract level, while in social science we are more specific about the elements of our analyses and relations between them. The point at which an account of social reality ceases to be ontological and turns scientific may be difficult to pin down in exact terms. It should be quite clear, however, from the context when matters ontological and matters scientific respectively, are addressed.

At a sufficiently general level there is in principle no difference between ontological accounts of social reality and scientific accounts pertaining to aspects of this reality. They are all *theories* about the social world in the sense of being hunches, conjectures or hypotheses about social phenomena, albeit at different levels of specificity. The critical realist account of social reality as sketched above should accordingly be considered an ontological *theory* of the social realm. And as with any theory, the credibility or authority accruing to it will depend upon epistemological considerations; that is, upon what arguments are provided in support of it. It should be noted here that when drawing attention to questions epistemological in assessing ontological as well as scientific theories, I do refer to epistemology in a broad sense meaning all arguments – empirical, rational or otherwise – that is, or could be, offered in order to substantiate a theory.

Roy Bhaskar, the philosopher to whom the critical realist project within economics owes much by way of inspiration and initial conception, warns against what he terms ‘the epistemic fallacy’. According to Bhaskar western philosophy has for centuries been under the spell of this fallacy implying that questions of being (ontology) have been reduced to questions of knowing (epistemology).⁷ However, Bhaskar’s urge to avoid this fallacy should not be understood as implying that questions of ontology can be entirely separated from questions of epistemology. As soon as we move on from basic ontological stances, like the critical realist stance pertaining to a reality that exists independently of our investigations of it, to make more substantive claims about this reality, we enter into the world of theories. In Bhaskar’s terminology the independently existing reality belongs to the ‘intransitive’ dimension of knowledge production while theories, including ontological theories and other knowledge material, belong to the ‘transitive’ dimension. Knowledge is, in other words, considered a social product liable to critique, change and transition. The ontological account of social reality pertaining to critical realism in economics then is a theory in the transitive realm of knowledge production whose credibility or authority is not automatically assured in any way. It has to be argued and defended, and the defence should be made subject to critical assessments.⁸

Taking his clues from Bhaskar, Lawson sets out to derive and substantiate a social ontology by way of transcendental deduction (or inference), a method that complies well with the retroductive form of argument held high in regard by critical realists.⁹ In Bhaskar (1989a) this method is employed to derive what is termed a ‘transformational model of social activity’. Lawson, then, spells out this argument in some more detail, while at the same time adjusting and adapting it more specifically to major concerns of the economics discipline.¹⁰

In general, a transcendental argument implies inferring from some generalised features of experience (the premises) to conditions for these features to be the case (the conclusion). The status or credibility of a transcendental argument depends, therefore, in part upon the premises from which the argument proceeds. To what extent are the premises employed really generalised and uncontested observations? Moreover, the status of a transcendental argument will rest on the deductions made from the premises to their underlying conditions. If it is claimed that these conditions are *necessary* for the features of experience to be possible, deductions made can leave no room for doubt. The full epistemological burden of the argument will rest upon the initial premises and the subsequent deductive inferences made. If the claim made, however, is relaxed from necessary conditions to *plausible explanations* that will render the premises intelligible, the epistemological burden of the argument will be somewhat different. In such cases, the transcendental deductions will only aim at rendering acceptable and likely explanations of the initial observations. There may, in other words, be other possible explanations. Additional support for the conclusion offered may then be sought in sources outside the transcendental argument itself, such as specific empirical examples, illustrations and so on that bear on the questions at hand. Invoking additional backing of this kind, however, makes us leave the realm of 'pure' philosophising and enter the realm of combined philosophical and scientific enterprise.

While transcendental arguments, under ideal conditions, might be relied upon to produce conclusions of high credibility, the prospects for such attainment when applied to social material are rather unpromising. Within the social sphere it is hard to find uncontested generalised observations of relevant features. And even if sufficiently interesting and uncontested generalised features were to be obtained, deductions made from them are quite unlikely to support claims to *necessary* underlying conditions for the premises to be the case. Due to the complexity of social reality one will, more often than not, have to settle for the more modest claim of plausible explanations in deductions or inferences of this kind. In general then, transcendental arguments within the social realm can hardly be relied upon to provide decisive arguments for the existence of any phenomena of interest, and hence for supplying a 'pure' philosophical or rationalistic support of any social ontology.

Advocates of the critical realist project within economics do seem to be well acquainted with these problems accruing to transcendental deductions and elaborations. In *Reorienting Economics*, for example, Lawson states quite explicitly that:

Any results achieved by way of transcendental reasoning are clearly conditional. They are contingent upon the human practices selected as premises and our conceptions of them, as well as upon the adequacy of the transcendental arguments employed. (Lawson 2003a: 34)

As a consequence, Lawson concedes that the critical realist ontological theory introduced to the discipline of economics is contingent and fallible, liable to change and even replacement. Equally cautious statements are to be found throughout Lawson's impressively prolific publications, and they are echoed in the contributions of other members of the inner circle of the critical realist project.

Turning to the critical realist practices, however, a somewhat different picture emerges. First of all, Lawson do not refrain from claiming conclusions to the effect of 'necessary' conditions for the premises invoked when elaborating his transcendental deductions. (e.g. Lawson 2003a: 36, 37,

39) Moreover, the ambitious strategy of situating critical realism as a philosophical underlabourer for a wide range of scientific practices within the discipline of economics, if anything, indicates confidence in the ontological theory of critical realism beyond any reasonable amount of doubt. The only way to reconcile the cautious pronouncements made regarding transcendental arguments and the observed practice of critical realists must be to understand their position as one of considering the critical realist ontological theory of the social realm to be fallible but nevertheless by far the best account of social reality available to us at the present. More specifically, they seem to be convinced that this theory outperforms competing candidates by a margin large enough to submit it as a cornerstone in a project of philosophical underlabouring for the whole discipline of economics.¹¹

Assessments made by commentators upon the critical realist project within economics, however, do not bolster this favourable evaluation. In the literature pertaining to and commenting upon the development of the critical realist project in economics, there are examples of outright repudiations, or else severe critical appraisals, of the ontological theory invoked.¹² And even among commentators sympathetic to the project, a cautious line is advocated on grounds epistemological. Dow (2004) finds it timely, on reasons paralleling those set forth above, to remind critical realists that 'different ontologies are possible', and to suggest that apart from a common conception of an open-system ontology heterodox positions within economics entertain 'different conceptions of reality'. (Dow 2004: 308, 310). And when Vromen (2004) considers the transcendental arguments offered in defence of critical realist ontology, he finds Lawson's exposition of it 'far from transparent', starting from generalised observations that 'appear to be somewhat arbitrary' followed by deductions that 'are rarely if ever carried out (or presented) in any detail.' (Vromen 2004: 19). A more penetrating study is reported in Guala (2002). Based upon a reconstruction of the transcendental inference offered by Lawson (1997: 30-31) in support of claims made for the existence of social structures, Guala convincingly argues that the claims made are not, and probably cannot be, supported by the suggested method of 'pure' philosophical, or transcendental, reasoning.

From all this we should not draw the conclusion that there is necessarily something wrong or defective accruing to the ontological theory of critical realism. What is at stake here is the question of what status or credibility we can reasonably ascribe to this theory, and the implications of such evaluations for the future development of a critical realist project within economics. In my view, the ontological theory of critical realism seems intuitively sensible and of potential interest for scientific work within the realm of economics. I do also accept that the transcendental arguments offered in favour of it, in spite of their deficiencies, lend some support to the theory, a support that is further strengthened by invoked practical examples and illustrations. However, and crucially, advocates of the critical realist project within economics have so far failed to produce anything like a decisive or broadly accepted set of arguments in support of their cherished theory. The critical realist theory of social ontology remains in the sphere of hunches, guesses and hypotheses. In my assessment, Vromen (2004) has made the most adequate characterisation of the critical realist ontological theory when he considers it a 'conjectural revisionary ontology'; conjectural in the sense that it represents 'a first guess about how social reality in fact is constituted' and revisionary in the sense that 'it is different from the ontological views that mainstream economists entertain'. (Vromen 2004: 20).

To sum up then, the transcendental arguments offered in support of the ontological theory at the heart of the critical realist project within economics do not provide this theory with an epistemological credibility beyond any reasonable amount of doubt. The critical realist account of social reality can only be ascribed status as a 'conjectural revisionary ontology'. As a consequence, the current endeavours to situate critical realism as a project of philosophical underlabouring for scientific practices within the discipline of economics stand out as ill advised. Such endeavours are not likely to be successful due to the fact that they are based upon an unfounded trust in the universality of the critical realist account of basic features of social reality. Critical realist critique of the practices of mainstream economists is not likely to have any effect if mainstream economists cannot be persuaded by the arguments supporting critical realist ontology. Moreover, invites to a heterodox unified co-development are also in the future likely to be met with reluctance and polite rejections for basically the same reasons. Such a dim assessment of the current strategy of situating critical realism within economics does not, however, imply anything like a general debasement of critical realist projects within the discipline. What is called for is a strategy of developing a project in which the epistemological status of critical realist social ontology is taken seriously into account.

Towards a critical realist-inspired economics

The epistemological status of critical realist ontological theory implies that it cannot be ascribed any privileged position in scientific work within the discipline of economics. The critical realist theory of social reality may, however, be considered a constructive and helpful first step in processes of economic theorising and analyses. If critical realism is to make any difference to economics then, it will have to be by demonstrating positive virtues of introducing explicit ontological reflection to scientific work directed towards analyses of substantive economic questions and issues.

Against this background it is my purpose here, pace Lawson, to make some initial steps towards elaborating a critical realist approach to economics in which systematic ontological reflection will be an indispensable and integrated part of the scientific process. Before turning to this question in some more detail, let me render clear the philosophical stances underpinning this position. Two basic philosophical stances are made. First of all philosophical realism is adhered to in the sense that the world, social and natural, is assumed to exist independently of our investigations of it. Secondly, an anti-foundational stance on epistemology is endorsed. Knowledge of the world is in principle regarded possible, but we do not have direct access to it by way of observation or by any other means. An epistemological relativism is consequently adopted. These philosophical stances separate the position argued here from various forms of positivism on the one hand and social constructivist idealism on the other.

By adopting the philosophical stance that the world exists independently of our investigations of it, no substantial claims are made about this reality. The critical realist ontological theory of the social realm, however, moves on from this general philosophical stance elaborating an account of social reality in which social structures are claimed to have real existence as emergent properties irreducible to individuals or individual actions. Social reality is, in other words, claimed to consist not only in intentional actors but also in social structures enabling, facilitating as well as restricting and directing individual agency, while being reproduced and possibly transformed by the latter.

The critical realist-inspired approach to economics argued here proceeds on the view that this theory, even if fallible and due to possible change or even replacement, at the outset is considered the best account of social reality currently available as a point of departure for theory developments and more concrete empirical work.

The main tenets of the critical realist social ontology thus perceived come with some helpful guidelines for scientific activities aimed at illuminating substantive economic issues. For economic theories and more practical work to be in accordance with the basic properties of the socio-economic world they should incorporate relevant interactions between economic agents and enabling and restricting social structures. Processes by which social structures are reproduced and transformed by individual action should also be paid due attention to, highlighting the geographically and historically specificity of social structures and their emergent powers. Accommodating economic theorising and economic analyses to these guidelines would contribute to establishing critical realist approaches to economics as a position distinguished from much of current work within the field. The noted guidelines are, however, kept at a rather general level and further concretisation may be called for.

Drawing to some extent upon Cruickshank (2003) I will suggest that the development of 'domain-specific' ontological theories may meet such requirements for further specification in a critical realist scheme of scientific activity. Domain-specific ontological theories may be established by invoking the method of immanent critique and knowledge-transformation. The general idea of this method is the conception that nothing is created out of nothing. Knowledge-like material like hypotheses and theories, for example, has some form of origin. Most of the time they are developed by processes in which pre-existing material of the same category is transformed and elaborated upon.

In order to develop domain-specific ontological theories within the realm of economics existing theories and explanations pertaining to substantive economic issues and phenomena may be subjected to immanent critiques probing into the question whether the theories at hand offer adequate and consistent accounts of the reality they purport to explain. To the extent that they do not, ideas and hunches as to how to provide a more satisfactory account will readily ensue. The next step in the process then is to actually work out an alternative account overcoming and transcending identified deficiencies and shortcomings.¹³ In a critical realist approach to economics, these undertakings will naturally be guided by the precepts flowing from the general critical realist account of social reality.

Starting out with different economic theories and explanations of issues like consumer choice, employment, inflation and so on, the suggested method can be invoked in order to develop critical realist domain-specific ontological theories pertaining to the issue at hand. The resulting ontological theories will be 'domain-specific' in the sense that they relate to a particular research area within economics rather than to the entire socio-economic world, and they will be 'critical realist' in the sense that they are elaborated according to critical realist accounts of social reality. Domain-specific ontological theories developed in this way will furnish more specific guidelines for activities directed towards conducting critical realist analyses of substantial economics issues and phenomena. They will supply precepts for more specific critical realist-informed economic theorising and for empirical work within the domain in question.

A critical realist approach to economics developed along these lines comes with some notable merits. Being elaborated in accordance with the general critical realist theory of social reality, the resulting analyses will incorporate an awareness of the interplay between economic agents and social structures, including processes of reproduction and transformation of such structures. Moreover, by being based upon domain-specific ontological theories developed from immanent critiques of pre-existing economic theories and explanations pertaining to relevant economic issues and phenomena, emerging critical realist-inspired economic theories and analyses will be kept in close contact with prevailing discourses within the respective research areas. In the process of elaborating a critical realist analysis of this kind, perceived shortcomings of existing theories and explanations will be rendered clear and the reasons for submitting an alternative thoroughly argued. The suggested process would consequently contribute to promoting understanding and communication between different positions or schools of thought within the field of economics in a true pluralist fashion.

It should be noted, moreover, that even if general and domain-specific ontological theories were envisaged as providing guidelines for the development of economic theories and analyses, and thus influence the direction and focus of scientific work within this critical realist scheme, they would not determine work at the scientific level. Rather, the proposed ontological theories may ground alternative economic theories or analyses. Systematic ontological reflection thus would not render scientific activities directed towards developing more concrete theories or models superfluous. It would, however, provide a more secure and relevant foundation for this kind of activity.

To sum up, and to clarify some additional points, the process of developing a critical realist approach to economics suggested above should be seen as a gradual and integrated one. The process starts out with general ontological theorising inquiring into basic questions of being and existence within the social realm as explicated by Bhaskar's 'transactional model of social activity', further elaborated upon and adjusted by Lawson and others. This general account of social reality is accepted as a point of departure in the process. It is important to note, and remember, however, that this account is only considered a contingent and fallible theory of social reality. The next step in the suggested critical realist-inspired approach is aimed at increasing the level of specificity of precepts flowing from the ontological reflection undertaken. By invoking the method of immanent critique of pre-existing theories and explanations combined with endeavours to offer an alternative to overcome noted deficiencies and shortcomings, domain-specific ontological theories may be developed in the light of precepts flowing from the general social ontological theory of critical realism. Domain-specific ontological theories then, if successfully elaborated at a required level of specificity, would yield more detailed precepts for the development of critical realist-inspired economic theories and empirical analyses pertaining to concrete or substantive economic issues and topics.

The critical realist approach to economics suggested here obviously takes a clear stance on the assumptions-debate which has haunted the discipline of economics at least since Friedman's influential methodology-article dating back to the 1950s. (Friedman 1953) The suggested framework indicates clearly that invoked assumptions are considered of crucial importance in critical realist approaches to economics, and systematic ontological reflection is set forth as the preferred way of introducing and elaborating upon fundamental presumptions in economic theorising and applied analyses. General and domain-specific ontological theories invoked in the

process of developing critical realist-inspired economic analyses are not, however, introduced as dogmatic or metaphysical assertions about being or existence. Rather, they are carefully argued contingent and fallible theories liable to change and even replacement in the face of decisive critical assessments or the procurement of better alternatives. If scientific analyses stemming from, or based upon, the ontological theories invoked do not stand up to systematic epistemological scrutiny, this fact may reflect back upon any element in the suggested scheme. The problem may lie at the level of scientific activity, but it may just as well be located at the level of ontology. Insufficiently epistemological support pertaining to critical realist analysis of some substantial economic issue may thus induce changes and revisions in the domain-specific ontological theories of the scheme in question. Changes or adjustments in the general ontological theory may moreover be initiated by considerations made at the level of domain-specific ontological theories, or as the result of other information. The suggested critical realist approach to economics then would be one in which ontological, or more generally philosophical, and scientific endeavours are considered mutually interrelated activities.

Concluding remarks

The main claims of critical realism are ontological. Questions of situating and developing a critical realist position within economics, therefore, turn crucially on the epistemological status of the ontological claims made. According to the arguments set forth above I do not find the ontological claims of critical realism sufficiently substantiated to warrant the current endeavours aimed at situating critical realism as a project of philosophical underlabouring for various positions or schools of thought within the discipline of economics. These endeavours have been less than successful so far, and the prospects of any future improvement in this state of affairs are at best quite uncertain.

Taking on board the fact that the critical realist account of social reality is a contingent and fallible theory, however, does not entail anything like a general dismissal of critical realist projects in economics. But it does indicate something different from the current endeavours of grand scale philosophical underlabouring. Above I have argued a critical realist approach to substantive economic theorising and empirical analyses developed from the general social ontological theory of critical realism. By invoking domain-specific ontological theories developed from immanent critiques of pre-existing theories and explanations pertaining to particular research topics, precepts will flow for the elaboration of critical realist-inspired economic theories and analyses pertaining to the issues at hand. The distinguishing character of this critical realist approach then, is its recourse to explicit integration of systematic ontological reflection and more traditional scientific endeavours.

The criteria of success for a critical realist project thus conceived would shift from the current dependency upon general acceptance of critical realist ontological theories to evaluations of its proponent's abilities to shed light on substantive economic issues. Moreover, the nature of the dialogue with well-established positions or schools of thought within the discipline would change dramatically. The current uncompromising critique of mainstream economics and the ontological solicitations with various heterodox positions would be substituted for critical realist endeavours to come up with improved accounts of and solutions to new and old economic problems and issues. To the extent that the suggested line of development were attended to, the envisaged critical

realist project would situate itself as yet another position of economics alongside already existing schools of thought with the purpose of advancing its own line of inquiry, while respecting and communicating with competing and complementary positions in accordance with true pluralist virtues.

Notes

1. Statements to these effects are prolific throughout the critical realist literature; for example Lawson (1994a: 259-262, 1997: 17-20, 2003a: 4-8); Fleetwood (2003: 28-31) and Lewis (2003: 183-86).

2. Representative studies of this kind are to be found in Fleetwood (1995, 1996); Lawson, C. (1994, 1996); Lawson, T. (1989, 1994b, 1994c, 1996, 2003b); Peacock (1993) and Pratten (1993, 1998)

3. This strategy is quite explicitly stated for example in Lawson (2003a: xxiii, xxiv, 165-168) and Lewis (2004: 1, 2, 13-18)

4. Some moves towards critical realist approaches to empirical studies in economics are initiated in a number of contributions in Downward (ed) (2003). It remains to be seen if these initiatives will amount to anything like a 'reorienting of (critical realism) in economics', paraphrasing Nielsen (2004).

5. The problem of distorted characterisation stems mainly from the invoked definition of 'deductivism', in which event regularities are claimed an essential element. This is not the way the term 'deductivism' is generally understood in the literature of philosophy, and it is certainly not the way deductive arguments are treated within mainstream economics. In the analytical scheme typically endorsed by mainstream economists, axioms and basic postulates may, of course, refer to underlying causal mechanisms, rendering observable phenomena explained by several, potentially reinforcing or countervailing, forces and mechanisms. Problems pertaining to the critical realist characterisations of mainstream economics are commented upon in Hands (1999, 2001); Walters and Young (2001, 2003); Reiss (2004); Hodgson (2004) and Davidsen (2005).

6. The positive reception of critical realism among post Keynesians is noted in a number of contributions to the *Journal of Post Keynesian Economics*, Fall 1999. See also Dunn (2004).

7. See for example Bhaskar (1978: 16, 36-42), (1989b:13, 38-39)

8. Dow (2004: 308) seems to indicate that there is 'a grey area between ontology and epistemology'. According to my arguments here, I am somewhat reluctant to accept this point made by Dow.

9. A retroductive argument is one in which we move 'from a conception of some phenomenon of interest to a conception of some totally different type of thing, mechanism, structure or condition that, at least in part, is responsible for the given phenomenon.' (Lawson 1997: 24).

10. Lawson's transcendental argumentation to this effect is spelled out quite explicitly for example in Lawson (1997: 30-32) and (2003a: 35-40)

11. Bhaskar, being keenly aware of the possible weaknesses pertaining to transcendental arguments, invokes the method of immanent critique of competing positions in order to strengthen the arguments for his own favoured account of social as well as natural reality. In the case of natural reality, Bhaskar's deductive argument are supported by an immanent critique of empirical realism, and in the case of social reality he invokes immanent critiques of voluntarism, collectivism and the 'dialectic' approach of Berger and Luckman

in order to substantiate the propositions embedded in Bhaskar's 'transformational model of social activity.' Against this background, it is surprising that critical realists within economics only occasionally, and then rather sketchy, explore this method for strengthening their ontological arguments.

12. See for example Hausman (1998), Parsons (1999), Boylan and O'Gorman (1995, 1999)

13. Bhaskar employs this method in his endeavours to work out and substantiate ontological theories of both the natural and the social realm. See note 11 above.

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author contact: bjorn.i.davidsen@hiof.no

SUGGESTED CITATION:

Bjørn Davidsen, "Critical Realism in Economics – a different view", *post-autistic economics review*, issue no. 33, 14 September 2005, pp. 36-50, <http://www.paecon.net/PAEReview/issue33/Davidsen33.htm>

EDITOR: Edward Fullbrook

PAST CONTRIBUTORS: James Galbraith, Frank Ackerman, André Orléan, Hugh Stretton, Jacques Sapir, Edward Fullbrook, Gilles Raveaud, Deirdre McCloskey, Tony Lawson, Geoff Harcourt, Joseph Halevi, Sheila C. Dow, Kurt Jacobsen, The Cambridge 27, Paul Ormerod, Steve Keen, Grazia Ietto-Gillies, Emmanuelle Benicourt, Le Movement Autisme-Economie, Geoffrey Hodgson, Ben Fine, Michael A. Bernstein, Julie A. Nelson, Jeff Gates, Anne Mayhew, Bruce Edmonds, Jason Potts, John Nightingale, Alan Shipman, Peter E. Earl, Marc Lavoie, Jean Gadrey, Peter Söderbaum, Bernard Guerrien, Susan Feiner, Warren J. Samuels, Katalin Martinás, George M. Frankfurter, Elton G. McGoun, Yanis Varoufakis, Alex Millmow, Bruce J. Caldwell, Poul Thøis Madsen, Helge Peukert, Dietmar Lindenberger, Reiner Kümmel, Jane King, Peter Dorman, K.M.P. Williams, Frank Rotering, Ha-Joon Chang, Claude Mouchot, Robert E. Lane, James G. Devine, Richard Wolff, Jamie Morgan, Robert Heilbroner, William Milberg, Stephen T. Ziliak, Steve Fleetwood, Tony Aspromourgos, Yves Gingras, Ingrid Robeyns, Robert Scott Gassler, Grischa Periono, Esther-Mirjam Sent, Ana Maria Bianchi, Steve Cohn, Peter Wynarczyk, Daniel Gay, Asatar Bair, Nathaniel Chamberland, James Bondio, Jared Ferrie, Goutam U. Jois, Charles K. Wilber, Robert Costanza, Saski Sivramkrishna, Jorge Buzaglo, Jim Stanford, Matthew McCartney, Herman E. Daly, Kyle Siler, Kepa M. Ormazabal, Antonio Garrido, Robert Locke, J. E. King, Paul Davidson, Juan Pablo Pardo-Guerra, Kevin Quinn, Trond Andresen, Shaun Hargreaves Heap, Lewis L. Smith, Gautam Mukerjee, Ian Fletcher, Rajni Bakshi, M. Ben-Yami, Deborah Campbell, Irene van Staveren, Neva Goodwin, Thomas Weisskopf, Mehrdad Vahabi, Erik S. Reinert, Jeroen Van Bouwel, Bruce R. McFarling, Pia Malaney, Andrew Spielman, Jeffery Sachs, Julian Edney, Frederic S. Lee, Paul Downward, Andrew Mearman, Dean Baker, Tom Green

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