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Response to Kanbur

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Within the economic development discourse, few ideas have been as contested as the "Washington Consensus." It is widely considered to be both synonymous with neo-liberalism and hegemonic within the discourse. By placing the Washington Consensus within a historical context, Professor Kanbur shows that it emerged as a response to the statist development consensus of the 1950s–1970s. Several important lessons can be drawn from this circumstance. First, each distinct period of development policy, both the early state-directed policies and later the Washington Consensus, were promoted by economists and international financial institutions at the time. Second, the economic development discourse is event driven. Third, the new economic development consensus differs fundamentally from previous prescriptions since it is not "one size fits all." Each of these lessons will be covered in Section II of this essay.

While it does provide significant insight into the origins and meanings of the Washington Consensus, Professor Kanbur's account of the evolution of the economic development discourse is not without its shortcomings. His categorization of development policies within a Left-Right policy space leads him to emphasize the political overtones of the events driving the economic policy discourse, rather than discuss the progression of economic development theory. Additionally, by focusing on the political content of the economic development discourse, rather than on the particular spaces from which it originates, Kanbur's account does not tell us anything about the public and private spaces within and around the institutions of global economic governance from which the discourse originates. These limitations will be covered in Section III of my article.

Section IV discusses a perspective on development that raises some interesting questions for Dr. Kanbur and the new economic development consensus. I articulate the view that development is about the advancement of human freedom and that all countries face unique institutional constraints. I use these two concepts to highlight the importance of two neglected issues in development policy: immigration and state failure. Section V concludes the essay.

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Emerging after the birth of macroeconomics and the industrialization of the Soviet Union, the early postwar development approach naturally favored state intervention as the means to spur development in the Third World. Many government advisors in Third World nations were trained in the First World, and it was with the strong support of First World economists and global institutions (such as the World Bank) that Third World countries engaged in state-directed industrialization. The first lesson to learn is that throughout each phase of development policy, during both the early state-directed policies and later the Washington Consensus, the policies implemented were those championed by prominent economists and international financial institutions. This is important to keep in mind, especially given Kanbur's account of why the fashionable development polices have changed over time.

Kanbur's explanation is that the economic development discourse is event driven. This is the second important lesson to learn. Starting in the 1970s, and intensifying in the 1980s, events like the OPEC oil shocks and the collapse of the Soviet Union cast doubt upon the efficacy of government planning in both the First and the Third World. Add to this the emergence of the East Asian "tigers," who offered a model of export-oriented development, and it is easy to understand how doubt could start to plague the early statist development consensus. The responsiveness of the economic development discourse to worldwide events highlights the fact that "the Theory of Economics…is a method rather than a doctrine…a technique of thinking, rather than a body of settled conclusions."[1] This is important to bear in mind, especially for those critics of the Washington Consensus who conflate the economics discipline with market fundamentalism.

The third useful lesson is that the new "Washington Confusion"[2] differs fundamentally from previous development prescriptions. Both the statist development consensus of the 1950s–1970s and the Washington Consensus of the 1980s–1990s were "one size fits all."[3] The new economic development consensus, as characterized by Kanbur, is not a generic formula. It stresses the importance of country-specific characteristics and of experimenting with growth strategies. While he acknowledges that some critics consider the new consensus to be unfocused, Kanbur prefers to emphasize the recent inclusion of distributional concerns and the benefits of a broader perspective. The key point is that this new consensus is formed around the idea that there is no one set of economic policies that constitute universally sufficient conditions for economic development.

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Professor Kanbur's account of the evolution of the economic development discourse is not flawless. His placement of development policies on a political spectrum leads him to focus on the political nature of the events driving the economic policy discourse, at the cost of considering the parallel development of economic theory. For example, while the change from the early statist development consensus to the Washington Consensus was indeed partly driven by specific historical events, it was also a result of the shift in development economics from early models based mainly on savings to additional insights, such as the importance of institutions. Of course, the development of economic theory is itself an endogenous, dialectical process, but it is also a lens through which historical events are interpreted. By even weakly associating development policies with political ideologies, this sort of classification makes it easy to forget that the real lesson we have learned over the past fifty years is that neither end of the policy spectrum is universally correct. Promoting development is not so easy.

By focusing on the changing content of the economic development discourse, Kanbur is able to situate the Washington Consensus within a particular historical moment. Such an approach ignores important questions regarding the public and private spaces from which the discourse originates. Do "Ministry of Finance types" still hold a hegemonic position within these spaces? In what ways does the nature of these spaces shape the forms that contestation can take? Have decision-making processes within the institutions of global economic governance changed within the last fifty years? Do such institutions approach the implementation of development policy differently now than in the past?

These questions have significant implications for the effectiveness of development policy that are separate from questions regarding the ideological content of said policies. For example, Joseph Stiglitz argues that proper sequencing and pacing of reforms is vital to their success.[4]

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Now I will discuss a view of development that raises some challenging questions for Kanbur and the new Washington Confusion. First, I will explain a simple but powerful model from Djankov and colleagues[5] that provides insight into the problems with one-size-fits-all policy prescriptions and will also be helpful in explaining some of the issues highlighted by my human-freedom conception of development. In this model, institutions function to control the trade-off between the costs of dictatorship and the costs of disorder. The costs of dictatorship generally consist of the risk of expropriation of citizens by a predatory state, while the costs of disorder consist of the risk of expropriation of citizens by private agents. Each country has a specific set of institutional possibilities, with the set representing a continuum of possible institutional arrangements ranging from a centralized command economy to anarchy. Moving along the continuum involves trading off the costs of dictatorship with the costs of disorder. The total costs of dictatorship and disorder are functions of what Djankov et al. call "civic capital." This civic capital is a function of the culture's degree of trust in strangers, ethnic homogeneity, the society's level of human capital, the degree of equality, and the country's physical environment, among other factors. Generally speaking, countries with a high degree of civic capital have lower costs of dictatorship and disorder. However, cross-country differences in the composition of civic capital can lead to variability in the costs of dictatorship relative to the costs of disorder in the various countries. Those institutional arrangements within the institutional possibilities set that minimize the total costs of dictatorship and disorder are the efficient institutional choice. One way to look at the new consensus in economic development policy is to notice that, given this model of the effects of institutions, there will not be a universally optimal choice of institutional arrangement across countries due to differences in each country's endowment and composition of civic capital. Thus, when formulating a development strategy, it is important to take into account country-specific characteristics and initial conditions. Countries face institutional constraints as a result of their culture and history. Given such constraints, certain changes, such as rapid reforms shrinking the size of the state, may be very costly in terms of the costs of disorder. It depends entirely upon the country in question and its features.

Abstracting from particular countries, development has historically been conceived as a temporal process in which different countries experience similar effects. One potential effect, or marker, or even definition of development is an increase in economic growth. An alternative definition of development is improvements in social indicators, such as child malnutrition. In defining development, "there is liable to be a competitive struggle to get one's own definition accepted. Those who struggle, wishing to influence policy, are right to do so. If a definition gets accepted, it tends to deemphasize considerations not included in the definition."[6]

I propose that development is about the advancement of human freedom. Prominent economists have advocated such an approach to evaluating economic development. As Arthur Lewis argued in *The Theory of Economic Growth*, "The advantage of economic growth is not that wealth increases but that it increases the range of human choice…economic growth increases man's freedom."[7] Peter Bauer wrote that he considers "the extension of the range of choice…as the principal objective and criterion of economic development."[8] However, no development economist has written more thoughtfully or convincingly on this approach than Amartya Sen. In *Development as Freedom*, Sen writes that, "in this approach, expansion of freedom is viewed as both (1) the *primary end* and (2) the *principal means* of development."[9] An expansion of the freedom of individuals is "the expansion of the 'capabilities' of persons to lead the kind of lives they value."[10] The concept of capabilities includes "being able to avoid such deprivations as starvation…as well as the freedoms that are associated with being literate…enjoying political participation and uncensored speech," the freedom to choose commodity baskets and engage in market exchange, and enjoying protective security from poverty.[11]

I think that such an individual-level focus is crucial when formulating development policy. This contrasts with the widely held conception of development within the economic development discourse, one based on economic growth and national economic policy objectives. The typical approach, based on measuring development using aggregate national statistics, reifies the nation-state and obscures changes in individual capabilities. As Friedrich Hayek noted in his Nobel Memorial Lecture, "while in the physical sciences the investigator will be able to measure what, on the basis of a *prima facie* theory, he thinks important, in the social sciences often that is treated as important which happens to be accessible to measurement."[12] Furthermore, unlike the physical sciences, the social sciences have to deal with structures of organized complexity and, therefore, Hayek argues that we cannot "replace the information about the individual elements by statistical information."[13] The human-freedom approach to development thus may not be practically measurable and might be dismissed by some critics as unscientific. Setting aside the premise that development is inherently normative, the individual-freedom approach to development is valuable because it provides important lessons for policymakers. The individual-freedom conception of development directly leads to innovative development policies that challenge the reified nation-state. Two prominent examples include the issues of immigration and state failure.

Despite its position on capital mobility, the Washington Consensus was never associated with advocating the free mobility of labor. The new Washington Confusion appears to also be silent on the issue as well. Within the development-as-human-freedom approach, relaxing immigration controls directly constitutes development, since it values an individual's capability to choose where to live. This seems to have been lost in the debate on immigration reform in the United States. From the perspective of the individual-freedom approach, the United States is directly preventing development. Mexican immigrants should be allowed access to the U.S. labor market. Additionally, the movement of labor out of countries with weak institutions may in fact be the easiest way to increase development for their populations.[14] It is just not clear that every nation-state is capable of producing development.

This leads to the second issue, that of state failure. Within the economic development discourse, state failure is treated mostly as something to be prevented or reversed. This is the result of reifying the state. Development is widely considered to be almost impossible without some state institutions. The development-as-human-freedom approach differs from the conventional approach on the implications of state failure.

Consider the case of Somalia, which has been in a condition of anarchy since 1991. Using event study methodology comparing human development indicators in Somalia for 1985–1990 with those for 2000–2005, Peter Leeson found that fourteen of the eighteen human development indicators have improved in the years since the state collapsed. For example, the percentage of one-year-olds fully immunized against TB increased from 31% to 50%, while the infant mortality rate per 1,000 dropped from 152 to 114.89.[15] The percentage of the population with access to at least one healthcare facility rose from 28% to 54.8%, while the percentage of the population living in extreme poverty fell from 60% to 43.2%. To the extent that the changes in these human development indicators reflect actual improvements in peoples' capabilities, they represent development. In Somalia's case, Leeson argues that the collapse of the predatory Somali state actually led to the increased provision of private law and order—and with it increased development. Powell and colleagues use a comparative institutional approach and find that their results agree with Leeson's conclusions. Somalia's standard of living has improved since the state collapsed.[16]

Using the costs of dictatorship and disorder model discussed previously, Somalia has specific conditions that define its institutional choice. The country went from having some level of government with very high costs of dictatorship and low costs of disorder to having no government, with the resultant costs of disorder being less than the costs of dictatorship that would be incurred at any level of government. Now, as conditions in Somalia change, the costs of dictatorship and disorder that Somalia faces regarding particular institutional arrangements will change. It may result in the efficient institutional choice becoming some form of central government. At this time, however, Somalia is unable to obtain relatively cheap government in terms of the costs of dictatorship and disorder. Thus, foreign state-building interventions into Somalia are counterproductive.[17] In a new assessment, Peter Leeson and Claudia Williamson argue that, "allowing total state collapse in the poorest parts of the developing world—those countries in which complete government failure and the emergence of anarchy is most imminent—may actually be the most promising avenue for improving the social welfare of the citizens in these countries."[18]

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The development policy discourse has changed dramatically in the last decades. There are three important lessons to draw from Professor Kanbur's account of the changes in the discourse. The first lesson is that each distinct wave of development policy, both the early state-directed policies and the Washington Consensus, were recommended by the economists and international financial institutions at the time. The second lesson is that the economic development discourse is event driven. After the events of the 1990s, the Washington Consensus lost its hegemonic position. Related to this, the third lesson is that the new

Washington Confusion differs fundamentally from previous development prescriptions since it is not a one-size-fits all paradigm.

There are two limitations to Professor Kanbur's account of the historical evolution of the economic development discourse. First, his view of development policies with a political lens puts the focus on the political nature of the events framing the economic policy discourse, instead of on the advancement of economic theory. Second, by focusing on the political content of the economic development discourse, rather than on the particular spaces from which it originates, Kanbur's account does not reveal anything regarding the public and private spaces within and around the institutions of global economic governance from which the discourse originates.

Even though the new economic development consensus is not a one-size-fits-all development paradigm, it still centers around states as the appropriate actors and on national economic growth as the appropriate measure for development. While this new development consensus is not intrinsically in conflict with the individual-freedom approach or the idea that all countries face unique institutional constraints, conventional development policy generally neglects the issues of immigration and state failure. While I am critical of the prevailing view of these two issues, I am confident that increases in individual freedom over time will lead to improvements in the human condition.

Notes

1. Rostow 1962.
2. See Naim 2000.
3. Jagdish Bhagwati considers this to be a "silly critique" (Bhagwati 2005).
4. Stiglitz 2002.
5. Djankov et al. 2003.
6. Little 1982.
7. Srinivasan 1994.
8. Bauer 1957.
9. Sen 1999.
10. Ibid.
11. Additional capabilities that highlight the advantage of using the development-as-human-freedom approach include the ability to enjoy the environment and to avoid becoming a victim of violence. (Sen 1999).
12. Hayek 1978.
13. Ibid.
14. This is exactly the argument made by Lant Pritchett (2006).

15. Leeson 2007.

16. Powell et al. 2008. For further evidence of the costs of predatory government and the areas of Somalia's improvement since state collapse, see Nenova 2004, and Nenova and Harford 2004.

17. For a discussion of the difficulties of rebuilding failed states through interventions with reference to Somalia, see Coyne 2008.

18. Leeson and Williamson 2008.

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