

1

The Need for Visions on the Economy: By Way of Introduction

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“In every scientific venture, the thing that comes first is Vision. That is to say, before embarking upon analytic work of any kind we must first single out the set of phenomena we wish to investigate, and acquire ‘intuitively’ a preliminary notion of how they hang together or, in other words, of what appear from our standpoint to be their fundamental properties. This should be obvious. If it is not, this is only owing to the fact that in practice we mostly do not start from a vision of our own but from the work of our predecessors or from ideas that float in the public mind.”

The citation above is from Joseph Schumpeter’s *History of Economic Analysis*, a book that is as interesting to read today as it was when it first was published by Oxford University Press in 1954.

We are living in a paradoxical world. According to many economists (and others), the fall of the Berlin Wall ushered in a non-ideological world based on sound economics. Other economists believe, however, that today’s world is still highly ideological (with neo-liberalism as one of its major forces) and based on biased rather than sound economics.

This book discusses a specific set of policies, known by the shorthand phrase “Washington Consensus”, which advocates a dominant role for markets both domestically and internationally. This “consensus” claims to provide “generally accepted” economic principles for achieving stability and growth in developing countries.

The book provides analyses of underlying assumptions and outcomes of development strategies applied over the last twenty-five years

and raises the important question of what policies would work best today in Asia, Latin America and Africa by following – or not – the recipes of the Washington Consensus. The book also provides analyses of ways to increase financial stability beyond the Washington Consensus by focusing on innovative and practically applicable policies at both the national and international level. Paying attention to international measures is particularly welcome since policymakers often lack the political will to discuss what needs to be done at the global level. And in the rare occasions they do discuss it, they often lack the perseverance and domestic support to implement what has been agreed upon internationally. In brief, the book provides analyses of what is right and what is wrong with the policies prescribed by the Washington Consensus.

Following the tradition of FONDAD publications, this threefold challenge is addressed by both critics and advocates of the Washington Consensus. The contributors include high-level officials of the World Bank, WTO, IMF, United Nations and other organisations, former ministers and central bankers, as well as professors of economics from Asia, Latin America, North America, Africa and Europe.

Economics Is a Social, Not a Natural Science

Possibly as a result of economic jargon, mathematical formulae and impressive economic authorities, it is often forgotten that economics is, like psychology, sociology or anthropology, a social science and thus deals with a reality that is shaped by the “subjective” human mind – as opposed to the “objective” physical matter of the natural sciences. As a consequence of this subjective character, everything in economic life is affected by how people think and act and thus by psychological, biological, political, cultural, economic and social factors. Herding behaviour among investors resulting in speculative attacks against a country’s currency is an outstanding and obvious example, but more generally, it can be observed that all economic activities are moved by habits, desires, expectations and ideologies as much as any other “normal” human activity.

It is natural that in formulating their theories and policy suggestions, economists make assumptions about economic “rationalities” of human activities and institutions, and about political “realities”. However, in making such assumptions, it becomes necessary to discuss and make explicit what is taken for granted and recognise the fundamentally disputable character of economic analyses and policy recommendations.

Often this recognition is missing in debates among economists, and, what is worse, among politicians who apply the economist's advice as if it were solidly based on indisputable wisdom of economic science.

Normally, the economist's prescriptions are discussed by fellow economists. This is a useful discussion. But an even more useful discussion would be to popularise economic ideas and involve all agents and subjects of economic policies: politicians, union and business representatives, and other organised citizens. To use a fashionable term, "civil society" should be involved in economic debates, from the beginning until the end since they are both the subjects and objects of economic policies.

Ideally, democracy serves as a mechanism for discussing proposed economic policies. In practice, however, economic policies are seldom discussed by civil society. And, what is worse, the alternative economic policies suggested by the "non-business" or "non-technocratic" segments of civil society are generally dismissed by the policymakers as "non-feasible" or "wrong". Usually, this is done by arguing that laymen lack the economic insights of the professionals or simply do not understand basic economic principles.

Economists performing public duties such as ministers of finance or central bank governors sometimes take this line of defense against alternative policies that do not concur with their own philosophies. Such attitude reminds me of doctors who dismiss the patient's opinion as "unprofessional". Both doctors and economists would gain in knowledge and respect if they listened more carefully to what their "patients" have to tell them – obviously, without any need to "accommodate" their views to what the "patient" would like to hear.

In reading the chapters that follow you may wonder: Who is right, the critic or the advocate of the Washington Consensus? It is up to you to decide, but I would not be surprised to hear that some of you strongly agree with what the critics have to say while others equally strongly disagree and endorse, instead, the advocates' views.

Such disagreements corroborate my point: economic views and statements should be subject to debate – all the time.

The Need for Divergence of Visions and a Truly Democratic Debate About Economic Policies

A few years ago, I read an interesting speech by Roy Culpeper, experienced economist and president of the North-South Institute in Ottawa, Canada's independent, non-governmental research institute

focusing on international development.¹ He said that it was ironic that the IMF was stimulating a democratic discussion about economic policies in poor, autocratic, developing countries, while such a discussion was virtually lacking in most or all of the developed, rich countries. The way the IMF is stimulating this discussion is that it requests governments of poor countries to draft so-called Poverty Reduction Strategy Papers (PRSPs) on the basis of careful consultations with their populations. Such drafting is, says Culpeper, also ironic since it brings back the concept of planning, “planning from below”.

But it is even more ironic than what Roy Culpeper says. I happen to have inside knowledge of a developing country that, some 30 years ago, made an effort to carefully consult with its population and engage in “planning from below” and this effort was not particularly welcomed by the IMF and other financial institutions in Washington and elsewhere. I lived in Chile in 1973 and became aware of the orchestrated national and international campaign of “Washington-inspired” forces against the democratic government of Salvador Allende. This campaign contributed to economic and political destabilisation in Chile, the military coup of September 11th, 1973, and the ensuing 17 years of brutal dictatorship.

Would it be desirable to replace the Washington Consensus with a “Santiago Consensus”, named after the city where the conference was held from which this book emerges? While I initially thought so, on second thought, I said to myself that the objective should not be the replacement of one consensus by another, but rather the replacement of the call for consensus with the recognition of diverging views or, if you wish, the call for non-conformity.

A meaningful and democratic consensus requires that policy plans be developed and proposed based on clearly defined and debatable (indeed, “debatable”, by definition, I mean, depending upon each and every citizens’ vision of man and society) economic ideas. Divergence of ideas, or, to use Schumpeter’s words, divergence of Visions (indeed, why not with a capital ‘V?’) is indispensable.

Economists have the challenging task of making existing Visions explicit and of developing new Visions. Only then can there be a truly democratic debate about economic policy alternatives. Therefore, I would welcome that economists at the IMF, World Bank, WTO, UN

¹ Roy Culpeper, “Development Economics: a Call for Action”, Paper presented at the UNRISD Conference on The Need to Rethink Development Economics, Cape Town, 7-8 September 2001.

organisations, central banks, ministries of finance, research institutes, media and other organisations engage themselves more actively, or more visibly, in developing ideas not only about the world they would like to live in, but also about the world that others would like to live in.

And what is the task of “the laymen”?

In my view, they should involve themselves more actively in economics. Not only should they discuss what the economists are analysing and prescribing, but they should also envision the economic world in which they would like to live. Paraphrasing the famous French minister of war, Georges Clemenceau: ‘Just as war is far too serious a thing to be left to the generals, the economy is far too serious a thing to be left to the economists.’

Among the laymen, psychologists, historians, political scientists, sociologists etc. – the economists’ colleagues in social science – have a special responsibility. Since they, the psychologists *et al.*, are just like economists, trained to think about human behaviour, in both its individual as well as collective forms, their insights are indispensable.² Mutual interest in each other’s viewpoints and analyses and more interaction between social scientists would considerably increase the quality of analysis of society and, thus, the quality of economic advice.

For the non-economists among you, some of the pages that follow may be tough to read. However, I would suggest that you do not skip them automatically. It is worth the effort to try reading the chapters and sections that are difficult to grasp because of technical language. My own experience, as a social scientist is that, if you are curious and willing to learn something, economics is much simpler and easier to understand than you think, despite the presence of mathematics and technical jargon. Moreover, the effort is rewarding: economic analyses can be fascinating once you become familiar with the economists’ ways of looking at things.

This brings me to a personal note with which I would like to end this introduction. Not only is it regretful that still so few non-economists have developed an interest in economic analyses and policies, but it is also regretful that still so few economists have made an effort to popularise their economic insights. Breadth and depth of visions would increase substantially if such popularising were not left only to economists like Paul Krugman, Joseph Stiglitz and George Soros

² A nice example is the IMF’s narrow and flawed approach to Russia’s transition to a market economy. Social and political problems were seriously overlooked or not taken sufficiently into account .

(to mention just three successful authors who all happen to live in the US). There are more visions that deserve a wide audience. And there are visions that today just reach a limited audience of policymakers while a potentially much larger audience would be interested to be informed about them as well.

The book that lies in front of you is a proof of the wide range of visions that exists. It shows that critics and advocates of the Washington Consensus have diverging views, but it also shows that they have views in common. Examples of views they share are the necessity of fiscal prudence, the pursuit of low or at least moderate inflation, and the establishment of a well-regulated and supervised financial system.

To end with Schumpeter's plea for developing a Vision: I think that "acquiring a notion of how phenomena hang together" is not only needed in "every scientific venture", but also in every democratic venture. Visions of the future are a vital ingredient of the vigorous and well-functioning democracy to which both critics and advocates of the Washington Consensus seem to subscribe.