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A Paradigm Shift that Never Will Be?: Justin Lin's New Structural Economics

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A Paradigm Shift that Never Will Be?:

Justin Lin's New Structural Economics

Ben Fine and Elisa Van Waeyenberge[1]

Abstract

This paper assesses the attempt by Justin Lin, former Chief Economist of the World Bank, to posit a new development paradigm through his New Structural Economics, NSE. Lin's attempt to redefine development economics deserves scrutiny for at least two reasons. He launched his new framework from the platform that his position as Chief Economist at the Bank. Critical scrutiny of his propositions then allows for continued insights into the complex relationship between scholarship and policy at the Bank and further illuminates, more broadly, the role of the Bank across the spectrum of development economics, development studies and development policy. Second, Lin's framework claims a return to a "structural" understanding of development, with a strong industrial policy rhetoric emanating from it. This has been greeted with considerable enthusiasm by erstwhile critics of the Bank. Closer scrutiny of the NSE, however, both reveals the flawed nature of its core theoretical notion of comparative advantage and exposes its strong, if unfortunately conservative, commitment to a flawed and incoherently applied neoclassical economics. These issues are explored across Lin's propositions regarding structural change, the role of the state and finance and are further examined in the context of specific policy interventions that Lin attaches to the NSE.

Keywords: comparative advantage, development economics, development policy, industrial policy, World Bank, new structural economics

JEL classification: A14, O10, O19, O25

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1. Introduction

As the term of office of Justin Lin, the latest World Bank's Chief Economist, drew to a close, the Bank published a collection of his scholarly contributions in a volume entitled New Structural Economics. A Framework for Rethinking Development and Policy, Lin (2012a). During his tenure at the Bank, Lin had used nearly every public appearance as an opportunity to promote his "New Structural Economics" (NSE).[1] This included what appeared at times to be bold statements regarding the need for industrial policy, particularly in low-income countries. As Lin returned to Beijing University, from which he had been seconded during his tenure as Chief Economist, he hoped that he had "planted the seeds" to "re-open the discussion of industrial policy in the coming years".[2] Given his prominence, Lin's attempt at redefining development economics in general and, presumably as its Chief Economist, to whatever degree, on behalf of the Bank itself, requires scrutiny. This is probably even more so given that Lin's emphasis on industrial policy was projected from within the Bank, which had previously sounded its death knell, most emblematically through the East Asian Miracle Report, World Bank (1993).

In previous work, Fine (2001) and Bayliss et al (eds) (2011) for example, we have emphasised that activity in and around the World Bank can be understood in terms of a complex, diverse and shifting set of combinations of scholarship, ideology and policy in practice. The exact nature of relationships across this troika is not necessarily one of consistency, nor of detachment, and how they are formed and evolve, is different across time, place and issue. This frame will be applied to the attempt by Justin Lin to redefine development economics. Lin (2012a) brings together his work to date in this regard. The volume reproduces previously published articles, together with some commentaries by some more or less friendly critics. And whilst these contributions primarily derive from the time that Lin has been at the World Bank, the NSE derives from Lin's previous work on economic development and transition undertaken while at the China Centre for Economic Research, University of Beijing, and several papers produced during that period are also included.

In terms of ideology, Lin's posture can be seen from two conflicting perspectives. On the one hand, he is no neo-liberal and positively insists upon an interventionist role for the state. This has meant that his contributions have been greeted with considerable if qualified welcome by erstwhile critics of the Bank, including those contributing to the volume. However, in the wake of the global crisis, and at least the potential loss of legitimacy of putatively relying upon free markets, Lin's commitment to a positive role for the state is as minimal or circumscribed as it is solid. As we will see, Lin is merely seeking for the state to support the private sector in pursuit of "comparative advantage", with a correspondingly limited role and scope for industrial policy. So, on the other hand, it is possible to see Lin not so much as positively championing the cause of state intervention as holding it in abeyance against demands for more radical measures in reaction to the lost legitimacy of neoliberalism in which industrial policy, in particular, has been held to be an anathema.

To some degree, however, the association of neoliberalism with free markets is misleading as it has never been non-interventionist. As argued elsewhere, Fine (2012), neoliberalism in general, and the Washington Consensus in particular, have involved heavy intervention, essentially to promote the interests of private capital in general and finance in particular, even if within a rhetoric of favouring market forces. Moreover, the post Washington Consensus, PWC, can be understood as reflecting the same goals in a second phase of neoliberalism, following its first shock phase. It rationalises a broader scope of interventions in the scholarly and rhetorical literature by reference to the need to correct market and institutional imperfections on a piecemeal basis and as a reaction against the previous Consensus. For policies in practice, though, on a broad brush, the PWC has, if anything, hardened on, not departed from, those associated with the Washington Consensus, Van Waeyenberge (2009).

How then does Lin situate himself in relation to the Washington Consensus and PWC? First, he sees himself as presenting a new structural (development) economics on the scale of influence of the Washington Consensus and old structural economics of his predecessors but also as an improvement upon them. For Lin (2012a, p. 5), his NSE is an attempt to set out a third wave of development thinking, advancing a "neoclassical approach to study the determinants and dynamics of economic structure". In parallel with software, Lin refers to his contribution as Mark 3.0.[3] Second, Lin makes no mention of the PWC. This is odd given that the PWC was launched from within the Bank by his much-celebrated predecessor (and future Nobel Laureate). Yet, while of other Chief Economists only Stiglitz has claimed to redefine the field,[4] explicitly substantively, Lin has less to offer than Stiglitz.[5] Lin's is a heavily reduced market and institutional imperfections economics, with little regard for the depth and breadth (of literature) that is attached to this paradigm that itself exploded out of the idea of the economy (and society more generally) as a market of second hand cars and the corresponding non-market responses to it.[6] Instead, central to Lin's whole analytical edifice is the notion of comparative advantage, a notion that can only have any legitimacy (i.e. none) in a world of perfect competition, see below. Not surprisingly, then, it makes sense for Lin to tread carefully around market imperfections for their more pervasive presence would potentially warrant more pervasive state intervention. This is less so of comparative advantage since it invites, but does not compel, the goal of achieving it through support of, rather than by, the state.

Through his NSE, Lin can then be seen as allegedly seeking to revive an analytical interest in structural and dynamic features of development (with a focus on industrial upgrading), in order to circumscribe the (industrial) policy realm. This is done by anchoring his analytical propositions in a very narrow (and inconsistent) set of neoclassical propositions centrally organised around the concepts of comparative advantage and factor endowments. This analytical stance, however, does not preclude support for a host of policy interventions, which, while ill-fitting with the projected analytical scheme, arise out of ad hoc acknowledgments of specific empirical realities. Further, such inconsistencies, or what we typify below as manifestations of a "suspended" use of neoclassical economics, appear against the backdrop of a striking absence of any substantive theory of the state itself.

This paper uses Lin's contribution as a lens through which to reflect more broadly on development economics, development studies and development policy, and the role of the Bank across this spectrum. It proceeds as follows. Section two provides an elaborate critique of the core analytical propositions that constitute the NSE. This includes a critical engagement with its central notion of comparative advantage, and an assessment of how structural change, the role of the state and finance are understood. Section three considers the implications of the NSE for research and policies both at the Bank and beyond. It describes an odd disconnection between Lin's scholarly ambitions and the policy implications that could be drawn from them versus those policy practices emanating from the Bank. Further, it takes a critical look at Lin's projections for the Bank as a Knowledge Bank. Section four concludes by drawing out the broader implications of our critique.

2. From comparative advantage to development: Lin and the NSE

In the NSE, the starting point of the analysis is an economy's endowments (of capital, labour and natural resources). These are assumed given at any point in, but changeable over, time. Factor endowments for countries at early stages of development are typically characterised by a relative scarcity of capital and relative abundance of labour and/or natural resources. Being given, endowments do not arise as the result of historical trajectories and do not need situating within a broader context of international and domestic political, financial and commercial realities. The analysis suggests that these given endowments imply a particular comparative advantage in different types of production activities. Developing industry, or determining the structure of production activities, following this comparative advantage provides the most competitive or optimal path for a country and produces the largest economic surplus and fastest capital accumulation. Capital accumulation implies the upgrading of the factor endowment structure and leads to changes in industrial structure, in line with a new or "latent", see below, comparative advantage. For a country's comparative advantage to be revealed to the private sector, the main stimulus in industrial upgrading, relative factor prices, must fully reflect scarcities. This necessitates "effective", p. 100, competition in factor markets. Government is to play an active, "facilitating" role in assisting the private sector in structuring productive activity according to comparative advantage by coordinating investments for industrial upgrading and diversification and compensating for externalities generated by first movers in the growth process, apart from engaging in its more traditional infrastructure-improving role, p. 5. For Lin (2012a, pp. 69-70), this all holds the key to industrial and developmental success:

> It is therefore imperative for a facilitating state in a developing country to identify and select new industries that are consistent with comparative advantage, use its limited resources to improve infrastructure for a limited number of carefully selected industries, provide adequate incentives for first movers, and coordinate private firms' related investments in those industries so that clusters can be formed successfully and quickly. Whether the government plays the identification and facilitation role may explain why some developing countries can grow at 8 percent or more for several decades while most others fail to have a similar performance.

The framework proposed by Lin is then three-pronged, p. 101. It is centrally organised around the concept of comparative advantage; it relies on the market as optimal resource allocation mechanism; and it charts a role for a "facilitating" state in the process of industrial upgrading.

Critical for Lin, then, is the notion of comparative advantage, sitting at the core of his NSE.[7] Yet, despite it significance, it is simply taken for granted as a valid concept. It is as if Ricardo's first use of the notion can be seamlessly extended to the problems of development through the application of neoclassical economics to which Lin is overtly and uncritically committed more generally.[8] For David Ricardo, Portugal can produce both wine and cloth more cheaply than England but has a comparative or relative advantage in the production of wine (a token concession to reality). It makes sense for each country to specialise and trade in the product for which it has a comparative advantage, and this will be brought about by free trade.

Now there are huge problems with Ricardo's theory on its own terms – including consistency with his labour theory of value, his theory of money, and why England is not simply eliminated as a producer by virtue of its absolute disadvantages. These problems are not resolved but are compounded by incorporation into the neoclassical framework.[9] For this, comparative advantage is taken back one step to the so-called factor endowments (at least capital and labour, and possibly natural resources of various types) upon which production depends. Not surprisingly, your comparative advantage for a product is liable to depend upon your comparative endowments for producing it and whether its production is skewed, comparatively, towards depending upon use of the factors in which you are well-endowed. Here, there is a huge analytical shift from the optimising <u>individual</u> to <u>national</u> endowments (with the nation as optimising individual as staging post in standard representations of elementary trade theory through Edgeworth box diagrams). This thoughtless slippage between levels of analysis is endemic within mainstream economics, not least with intra-national distribution set aside when considering national endowments, but conflicts in, and pursuit of, self interest brought to the fore whenever rent-seeking, corruption and state capture are to be emphasised as obstacles to proper use of endowments, comparative advantage and the virtuous market.

Even setting these considerations aside, let us just list some of the assumptions that are necessary for the concept of comparative advantage to be legitimate, to be measurable and for it to be the basis for policy formulation.[10] First, there can be at most two sectors in the economy[11] (and only two countries as well).[12] Second, these must not be subject to what is termed factor reversals in international trade (in which the composition of the use of inputs or the demand for goods changes disproportionately with differences in the distribution of income or demand).[13] Third, there must be full employment. Fourth, there must be no increasing returns to scale and scope. Fifth, there must be no externalities. Sixth, there must be no factor mobility. Seventh, there must be perfect competition. Eighth, there must be no technological change, as opposed to change in technique to higher capital-labour ratios.[14]

In other words, the notion of comparative advantage is useless whether conceptually, empirically or policy-wise, and especially all of these in combination, although this has not prevented it from being a workhorse of sorts in theoretical scholarship and empirical and policy application. It should be emphasised that these considerations arise from within the apparatus of neoclassical economics itself, not by virtue of some external critique. As a result, like many other, if not most, neoclassical economists, Lin ignores its deductive implications when they are inconvenient.[15] But it gets much worse than this, again in conformity with common practice within the mainstream. For then Lin proceeds to deploy the illegitimate concept of comparative advantage to bring back in the very factors that render it illegitimate if only on a self-serving, selective and relatively narrow basis. The narrowness arises out of strong commitment to a world of almost-perfectly working markets, creating theoretical legitimacy for a role, if confined, for the state. Indeed, the term “market imperfection” only appears twice, throughout the volume, and one of these is in a commentary by Stiglitz, see below.

The first bringing back in is to allow for government to affect, or to accrue potential, comparative advantage through its institutional/infrastructural support. Apart from adding a sector of the economy, and non-tradables at that, this implies at the very least that comparative advantage is jointly determined by factor endowments and government, and there is no reason why one should take priority over the other. In effect, government/institutions are an unnatural factor endowment to be traded indirectly through (latent) comparative advantage just like other factor endowments. It bears repeating, and possibly clarifying for Lin himself, that for him development is simply an appropriate choice of optimal change in, and use of, factor endowments (including balance of state and market) as development proceeds without regard to the restrictive assumptions on which this depends even with the deep attachment to neoclassical economics (and not least, no more than two sectors, of which one is institutions).

The second bringing back in is for comparative advantage to change over time with changing factor endowments (as capital is accumulated). But comparative advantage is unambiguously a product of comparative statics, of given endowments, preferences and technologies. Third, and more specific, is to allow, for example, for the role of foreign direct investment (internationally mobile capital) and for the nature of the financial sector (the only mention of market imperfections) to make a difference.

As a result of these bringing back ins, identification of comparative advantage, of necessity, departs from any foundation within neoclassical economics other than through guilt by association. So, how is comparative advantage to be identified? The answer is through a lurch away from theory to more or less casual empirical conformity to the developmental paths taken by those with higher per capita income. The telling point here is that we do not need any theory at all to do this however much the exercise might have been motivated by comparative advantage. More or less arbitrarily, we pick comparators with similar factor endowments who are a number of years or income per capita ahead of us, and we furnish institutions/infrastructure to emulate them.

Such a procedure is already in place in Lin's (2003) much earlier work,[16] reproduced in this volume. It is presented in terms of a choice between policy that targets being either comparative advantage following, CAF, or comparative advantage defying, CAD. The history of, and prospects for, developmental success (failure) is presented in terms of being CAF (CAD). Leaving aside the history for the moment, even such simple nostrums are riddled with the ambiguities and inconsistencies on which they are based, and are exposed as such once Lin's account is projected onto the grander stage of World Bank development economics mark 3.

For, if comparative advantage does not stand independently on its own two feet, how do we decipher the difference between following and defying it? Too heavy intervention, or support, to follow is surely tantamount to defying. This has been brought out in subsequent debate with Lin if in the context of refining and not defying rather than following the notion of comparative advantage. For Lin is neatly boxed in between those who are more and less interventionist than him albeit on the basis of acceptance of arguments around comparative advantage. For the former, the dichotomy is made between picking and creating winners, and they are more inclined to go for both rather than be confined to merely (infrastructurally) picking winners. Indeed, on the face of it, providing infrastructural and institutional support in picking winners is surely more or less indistinguishable from creating them, depending upon what is meant by picking and creating and where the line is drawn between them – finance, skills, research and development, transport, etc, all both pick and create winners.

Or is the option only to pick or create losers as is emphasised by the old, Washington Consensus guard who, to parody, are convinced that all policy is potentially rent picking and creating (or seeking to use the terminology in vogue) whether CAD or CAF.[17] In this light, Lin situates himself between the devil and the deep blue sea across those who deploy the notion of comparative advantage. Either, at one extreme, we proceed as if the conditions hold for comparative advantage to be defined and pursued by free markets or, at the other extreme, we acknowledge that such conditions do not prevail but we continue both to use comparative advantage as legitimate and target it for intervention in light of these conditions (that undermine it) to pick or create it – getting the prices wrong in Alice Amsden's famous phrase (although there is much more and much more important to it than this).

As indicated, Lin's stance of essentially balancing angels on pins is already available a decade ago. Support the provision or even provide the pin but leave the market to provide the angels as long as some other country ahead has angels on a pin but is liable to move on to a laser beam as balance point with development. Even then it was immodestly offered as holding the key to understanding why developing countries had failed to converge on the developed, with too much CAF (misguided pursuit of industrialisation through pursuit of capital-intensive production) and not enough CAD in the past. As such, it might be thought to have had limited impact at least until Lin became Chief Economist at the Bank. Then, with little or no refinement or development of the analytical postures already in place, and by virtue of his position as nominal head of the knowledge bank, Lin has sought to project his flawed CAD/CAF framework across the entire field of development economics.

How he does so is of revealing significance. First, the CAD/CAF framework is itself more or less abandoned, possibly because of the ambiguities previously highlighted. Instead, we are offered a shift in terminology to **latent** comparative advantage, the comparative advantage in the making, worthy of limited state support, and following those a decade or so ahead on the path to development. Of course, substituting a change of terminology does not resolve the issue of flawed concept. But, remarkably, CAD/CAF more or less disappears from Lin's later accounts, confined to debate with Chang over Lin's more recent work, Lin and Chang (2009) reproduced in the volume. And, as Fine (2012) suggests, to interpret successful industrialisation as the correct pursuit of such latent comparative advantage is to border on the tautological. Indeed, this is the only conclusion that can be drawn from Lin's defence of everything from Posco to Nokia as indicative of the triumph of appropriately supported latent comparative advantage.[18]

Significantly, then, even as late as 2009 in his first presentation of "the new structural economics", Lin has yet to use the notion of latent comparative advantage. But he has, transparently, wedded himself to structural economics and his own version of it as the second, and most important, string in his bow of ambition. Once again, it is salient to point out that such appeal to structure is a relatively new tune in his repertoire, at least as far as its scope of ambition is concerned. In the earlier work, structure refers more or less exclusively to factor endowments, prices, capital-labour intensities and the composition of output. But with the new structural economics, we are suddenly projected into the world of structural **transformation**. With one exception, the third string treated next, it is easier to see what this is not than what it is. For Lin rejects the old development economics and other versions of structuralism, without displaying much by way of knowledge of them, either methodologically or substantively (see below), and he equally sets aside Rostow's stages of economic growth for dividing development into discrete stages. Instead, his structuralism merely appears to be a continuous shift in the composition of production in the directions dictated by latent comparative advantage. Thus, contra Rostow, emphasis added, p. 26:[19]

> For the new structural economics, economic development from a low level to a high level is a <u>continuous</u> spectrum, not a mechanical series of five distinguished levels.

Thus, the new structural economics is little more than comparative advantage today supplemented by support for new comparative advantage tomorrow.

Third, though, whilst we have already indicated that the whole comparative advantage enterprise as target remains shrouded in ambiguity if not flaws, much the same applies to how it is to be achieved. The main instrument is the market but Lin's much lauded novelty, so it is supposed, is to allow for some sort of role for the non-market and for the state in particular, see below. However, on any sort of close examination, the catalytic role of the state in promoting latent comparative advantage (or CAF, not CAD, in earlier work) is, like the Cheshire Cat, peculiarly benign and elusive. In the earlier work in this vein, now packaged into two separate parts, perversely under the title of "Development Strategy, Institutions, and Economic Performance", there is a notable absence of substantive reference to institutions at all. For the more recent material, what we are offered is a general, if passing, appeal to the New Institutional Economics, and the work of Douglass North in particular. Essentially, Lin provides no theory of the state at all. Rather, the state is a sort of deus ex machina, much like the old welfare economics (if with a potential negative alter ego in deference to the Washington Consensus), and merely serves to resolve, or not, the problems that he has himself created by his analytical schema, together with all of its ambiguities and flaws. Thus, the state must provide the supportive conditions for latent comparative advantage, without descending into inappropriate rent seeking through overextending itself across the margins of supporting, picking and creating winners. Much the same is true of his approach to institutions in general and infrastructure more specifically. Indeed, it is not clear whether he has any substantive distinction across the <u>state</u> (and <u>government</u>), <u>institutions</u> and <u>infrastructure</u> (and finance, see below) since each plays the same role, or not, as complement to the market in bringing about structural transformation through a continuous sequence of what was previously latent comparative advantage for others but currently latent for itself. As already suggested, irrespective of the merits of this analysis, it is purely arbitrary to deploy it as pertaining at any particular point along the continuum from neoliberalism to a (diluted) developmental statism, see below for the latter. And with the state, etc, subject to an effective reduction to the status of a factor endowment, it is hardly surprising that it should be stripped of any serious analytical or historical analysis (other than through econometrics).[20]

In short, then, where you situate yourself along the putative market-state dichotomy once accepting it, and picking/creating comparative advantage as analytical framework, is purely an ideological matter. Neoclassical theory as such cannot offer resolution even on its own terms since it has no determinate answer other than by appeal to circumstances (and a more or less broad scope of acknowledgement of deviation from perfect markets).[21] As a result, Lin's position is, in a sense, peculiarly logical because it both fails to recognise the indeterminacy of neoclassical economics <u>and</u> the corresponding implications for indeterminacy of (successful) developmental paths (otherwise, he could not deterministically advise to follow ten-year latent comparative advantage). However, two logically flawed postures (or indeterminacies) that are consistent with one another do not make a right (or determinacy). Lin does interpret all successful development as the result of latent comparative advantage just as his opponents see it as picking and/or creating (or facilitating) comparative advantage with the potential at least for a little more developmental and institutional variation.[22]

Nonetheless, the inclination for Lin to situate himself closer to the market-conforming, for him CAF, extreme for whatever ideological reasons carries the additional (dis)advantage of being able to avoiding a number of troublesome factors. For, in particular, in the wake of the global crisis that may, paradoxically, have prompted him to project his CAF/CAD frame as a new structural economics to fill the demand for something different, notably absent from his considerations is the role of finance. As previously suggested, "there is no discussion of substance of public ownership, of the global crisis, of finance, of the global and systemic more generally, and even or especially of the developmental state", Fine (2012, p. 65). Whilst understandable given origins with the World Bank such absences are surely inexcusable in a text purporting to offer a new development economics.

Or, at least this was more or less true of the publications that immediately preceded and which continue mainly to fill out the text of his volume. Possibly, though, Lin felt it necessary once putting his volume together, not to push the issue of finance completely under the carpet if he were to retain any credibility, and the volume does include a specific treatment of finance arising out of the most recent of research at the Bank.[23] His, and his colleagues, efforts though are, however, more revealing than remedying. Essentially, Lin's treatment of finance draws heavily on, rather than contributing further to, his new structural economics in the sense that finance and the financial literature is simply recast through its prism both analytically and, correspondingly, terminologically. For financial systems are a special case of (optimal) institutions and can be (re)formulated as such once the general analytical framework has been put in place. Thus, the analytical starting point remains initial physical endowments, corresponding (latent) comparative advantage, and a pre-determined catch-up path of (industrial) development. As an institution and a structure, what form should finance ideally take (and what form has it taken) for success? An answer is provided initially by distinguishing between market-based and bank-based financial systems, one relying more upon the stock market and the other more upon banks as sources of finance for investment, respectively. Each system is seen to have its own advantages and disadvantages. The market system is deemed to be better for handling access to large-scale, risky funding whereas the bank-based is better for small-scale, secure investments drawing on local knowledge for viability of loans. Further, the dichotomy between the two systems is reinforced in terms of their respective suitability for labour-intensive, catch-up industrialization as opposed to frontier innovation with high, if risky, capital requirements.

On this basis, the conclusion is drawn that the “optimal” financial system evolves from bank-based to market-based during the course of development. As a result, development is accompanied by a shifting financial structure (more market and less bank) associated with financial “deepening”. It is claimed that the empirical evidence, ranging from the casual to the econometric, [24] is supportive of this account, with financial deepening accompanying development of countries, firms and poverty alleviation.[25] Particularly notable from the policy point of view is the rejection of the neoliberal dogma concerning perfectly working financial markets (and the irrelevance of asset structure underpinning industrial finance) and the need even to constrain rather than promote a market system from emerging prematurely, p. 277. Of course, it is not only in less developed countries that the market system has given rise to excessive and inappropriate forms of finance, and corresponding crises, see below!
Thus, deviation of financial systems from optimum correspondence to latent comparative advantage can be the result of “politics” and, in particular, undue zeal to leapfrog to an inappropriately advanced financial system. By the same token, politics may seek to promote unduly large capital-intensive projects through state-controlled banks (at expense of locally financed SMEs) or to fund favoured coalitions through state directed finance. Once again, the presumption is that the state must play some, if minimal, role in charting the financial system along the trajectory of latent comparative advantage.

This represents a departure from Gerschenkron who is merely observed in passing by Lin to suggest that,[26] “banks are more important than markets in the early stage of economic development when the institutional environment cannot support market activities effectively”, p 265. But, for Gerschenkron who initiated discussion of the forms taken by finance in late development, the role of the state is imperative (as it has been for China despite Lin’s remarkable claim to the contrary).[27] Also overlooked by Lin is the more recent literature on market versus bank based systems that derives from market imperfection economics, with the unreferenced Stiglitz one of the leading and continuing proponents. This literature, however, reached its zenith in the mid-1990s and has, subsequently, more or less totally disappeared.[28] This is so for two reasons. First, just on empirical grounds, across the varieties of financial markets and how they have functioned, the distinction between market- and bank-based systems has become increasingly difficult to sustain. Second, relatedly, the apparent superiority of the bank-based system (of Japan and Germany) for dealing with long-run investment and informational asymmetries between lenders and borrowers, has been increasingly subject to erosion as globalised financialisation has taken hold. If bank-based was so good, why has it eroded?

Interestingly, the demise of this approach to finance is inadvertently marked by Lin through a bimodal chronological distribution of references in his Chapter on finance with but one reference between 2002 and 2011 and yet plenty of references both before and after this decade-long divide. As the two sets of literature deployed are primarily drawn from the World Bank, this may in part reflect a renewal of interest in finance on its part following the global crisis, and a need to distance itself from pure neoliberal, efficient market, stances. Consequently, the analytical substance has gone through a far from subtle change with the market- versus bank-based structural dichotomy for financial systems displaced by a focus on financial deepening – involving various continuous measures of financial activity (for example, private credit relative to GDP). With this shift to financial deepening – and the notion that it can optimally follow the yet to be invented <u>latent</u> comparative advantage – there is no reason to rely upon reference to the earlier paradigm of market- versus bank-based systems at all.

Further, the reliance on financial deepening in broad terms, and that this rather than the composition of those assets as such as finance disproportionately expands with the market system, allows for two significant oversights. First is to reduce the role of the financial system to the mobilization and allocation of investment (to support latent comparative advantage or not) because this is what it is supposed to do within his theoretical frame (and, indeed, of the efficient market hypothesis and what might be termed the inefficient market hypothesis for deviation from such optimal functioning). Consequently, deviation from optimality is only addressed as support to the wrong levels and/or composition of real investment in productive activity. This is entirely to overlook the composition of assets in reality, and those particularly associated with contemporary shifts in financial deepening (and from bank- to market-based systems), namely the proliferation and expansion of assets associated with speculation and “financialisation” more broadly. We are talking speculation here. It plays no part in Lin at all.

Second, more specifically, the idea that financial deepening corresponds to a stage of development in which capital-intensive, high-tech, high-skills, innovative, large-scale <u>production</u> is to the fore begins to look partial, if not sick, in the light of the current crisis and continuing recession. Particularly ironic is the suggestion that premature financial deepening has prompted crises in less developed countries just at the point in time when excessive “deepening” has prompted such a global outcome with origins in US subprime markets. In short, Lin’s account of financial structure in economic development is remarkable for its dual neglect of finance itself (and its role in self-serving speculation) and for the sorts of crisis with which such finance is associated, with recent events even unable to induce a broader take on the nature of finance.[29]

This, in part, reflects a continuing commitment to a narrow neoclassical economics with the systemic nature of finance being incapable of being addressed for which comparison with Stiglitz is telling. For the latter at least, the contemporary failure of the financial system rests neither on his favoured terrain of asymmetric information between borrowers and lenders nor, other than as reflection of something deeper, on the distorted developmental goals and self-interests of politicians in command of the state. Rather, for Stiglitz, the vested interests and ideology of finance have been at fault and explain why financial systems have been allowed to expand out of control despite the compelling logic, but ineffectiveness, of his own economic theory (and preference for bank-based over market-based financial systems), see Stiglitz (2002 and 2009) for example.

Analytically, that Stiglitz should conclude with vested interests as explanatory factor, rather than starting with them, is indicative not only of a difference with Lin but also of something that they share in common. This is to range over whatever explanatory factors they care to select irrespective of their roots within, and/or consistency with, the framework of the optimising individual. For Lin, this suspended use of neoclassical economics (it is there without being there) is most overt in case of his appeal to diagnostics. Unsurprisingly, for him, it is a matter in principle of identifying, ultimately if CAD/CAF along the way, latent comparative advantage corresponding to national factor endowments, and whether institutions correspond to their needs. A similarly named, and far more extensive, reliance upon diagnostics has been deployed by Rodrik and his Harvard colleagues,[30] with some emphasis on providing the infrastructural support for the self-discovery of comparative advantage by entrepreneurs, Hausmann and Rodrik (2003), presumably only latent to the state in Lin's terms but not to the entrepreneurs themselves subject to appropriate state and endowment support. Other than for both as a marker for commitment to private capital, and a supportive if tightly constrained role for the state, it is notable how such analysis bears little or no reference to the optimising behaviour of entrepreneurs. This neatly dovetails with the parallel displacement from such optimising individuals to national factor endowments. This does not mean that anything can and will be deployed in diagnostics but what is selected is to some degree arbitrary and ad hoc albeit with no go areas, especially around the formation and evolution of class interests, see Fine (2009b and c) in debate with the Harvard Group on South Africa, Hausmann and Andrews (2009).

Significantly, Lin does provide a case study for Nigeria that illustrates these points of "suspended" neoclassical economics,[31] and even takes them further by suggesting that industrial policy needs to combine vertical (within sector) and horizontal (across sectors) considerations.[32] This is eminently sensible in principle but, in practice, involves the identification of where the market does not work well in a vertical context and whether and how the state might remedy such deficiencies – all indicative of a market-led, minimal-state inclination. It is also to draw upon a state versus market analytical dichotomy, with a relative absence of the global, systemic processes such as financialisation, evolving class and other interests that are formed and act through both state and market as latent comparative advantage, as it were, does or does not materialise. Elsewhere, such limitations have been critically addressed at length in the context of the developmental state paradigm, DSP, Fine et al (eds) (2013). They apply equally, if not more so, to Lin given that, like the DSP but without ever mentioning its contributions and significance, he also reduces development primarily to latecomer, catch-up industrialization on the basis of methodological nationalism -- that the nation, not the individual, is the unit of analysis and, in particular, its development is achievable for all if only appropriate policies are adopted independent of the role and policies of other nations let alone the world system as a whole, since each nation is on a ladder (or snake) to (or from) development.

Indeed, for Lin, other nations offer not so much competition and threat as opportunity (as with the theory of comparative advantage). In particular, he deploys an elementary, and flawed, flying geese approach, in which less developed countries can occupy the labour-intensive sectors being superseded by those countries ahead of them in the pecking order, with China seen as such a latent source of industrialization for following nations. This is, however, to adopt far too linear a view of development in a world of global networks,[33] and the position of China across them as it straddles both high and low tech industries and the capacity to do so for the foreseeable future, Fine (2011). Thus, despite the constrained departure from the dogma of the Washington Consensus, Lin's orientation remains one of (latent, to coin a phrase) conformity to trade openness and for it to determine what to export as opposed to examining the potential for promoting domestic production to meet domestic needs, not least in what ought predominantly to be non-tradeables such as construction, energy, transport, health, education and other elements of economic and social welfare.

This is itself indicative of another remarkable absence in Lin's account but for the minor, implicit and misleading exceptions of claimed departure from the Washington Consensus and PWC (and premature financial deepening). It is the failure to consider the relationship between his own scholarship, not least as Chief Economist at the World (knowledge) Bank, and its policies in practice, see below. Irrespective of whether his mild turn towards industrial policy is itself acceptable within the Bank, other than as offering some degree of scholarly, rhetorical and contested support to the softly-softly stance on extending state intervention, it is striking, if not surprising, that there should be no mention of how the Bank is responding to the crisis (and the role of its interventions alongside those of the IMF). And, in addition, the increasing shift of the Bank's resources to its private sector wing, the International Finance Corporation, IFC, in promoting Public-Private Partnerships for provision of economic and social infrastructure inevitably falls entirely outside his compass.[34]

In this respect, as with others, there is a significant contrast with Stiglitz given that his paradigm shift was deliberately designed to inform a major change in broad and detailed policymaking across the Washington institutions. What he achieved in practice is another matter, given his enforced departure from the Bank, but Pyrrhic victory with some degree of adoption of the PWC as scholarship and rhetoric, Consequently, for Lin, as for Stiglitz, the worlds of scholarship and policy at the Bank occupy parallel universes, although one does and one does not highlight this.

3. Lin and the Bank

Nevertheless, from within the NSE, Lin (2012a) offers a few preliminary insights on specific policies. This includes support for counter-cyclical fiscal policy, to be put in the service of infrastructure upgrading, p. 30. Further, the NSE supports the strategy of using revenues from commodities in resource-rich countries to invest in human, infrastructure and social capital to facilitate the diversification and upgrading of industry, rather than that these are channeled mainly into foreign reserve accumulation, p. 31. Monetary policy could be geared towards low interest rates to encourage investments in infrastructure, rather than that interest rates are set solely with the purpose of price stability, p. 32. Monetary authorities should also deploy “temporary” interest rate subsidies and flexible credit allocation rules that target infrastructure projects that have been identified as binding constraints, p. 32. In the context of liberalization of domestic finance and foreign trade, the NSE emphasises appropriate sequencing, p. 33. A differential policy environment is prescribed to regulate foreign direct investment compared to portfolio investment. This favours the former rather than the latter, p. 34. (Capital controls remain absent from the policy narrative.) Finally, the NSE highlights the importance of well-designed policy on “human capital” development, to include measures that foster skills to facilitate the upgrading of industries, p. 37.

In the context of industrial upgrading, the NSE seeks to go beyond the broad investment reforms traditionally promoted by the World Bank and draws attention to “specific, feasible, sharply focused, and low-cost policy interventions that can deliver a boost to output and productivity”, World Bank (2012, p. 41). Such an approach necessitates in-depth diagnosis of the constraints prevailing in specific sectors, undertaken through the Growth Identification and Facilitation Framework, and requires engagement with empirical realities of the processes and environments within which industrial activity takes place. The study entitled Light Manufacturing in Africa, World Bank (2012), typifies such an approach and is, according to Lin, the first research project based on the NSE, p. xiv.[35] Significantly, through its engagement with empirical realities, World Bank (2012) documents features that are at odds both with the theoretical premises of the NSE and the broad policies traditionally promoted by the Bank. Instead, it presents a descriptive account of processes, structure and linkages across a set of manufacturing sectors for a set of countries and highlights a host of interventions that have led to successful output and productivity performance in other countries (China and Vietnam).[36]

Policy measures are advocated on the basis of their success elsewhere rather than that they emerge from a set of theoretical propositions, drawn from the NSE or elsewhere. An emphasis on scale prevails and advocated government policies include measures such as: "plug-and-play" factory shells, where the government incurs the fixed costs of utility-equipped factory shells which overcome firms' need for finance to construct factories; the provision of affordable residential housing for workers; affordable public transport for workers; provision of long-term credit by the government; and tax incentives.

While much of Bank rhetoric has traditionally been characterised by an undifferentiated celebration of small and medium enterprises as sites of development, World Bank (2012) then offers a refreshing reminder of the realities of output and productivity growth in manufacturing, particularly by highlighting the necessity to tap into economies of scale. In the context of existing Bank research, the study distinguishes itself by a set of features. It deploys a mix of quantitative and qualitative methods and, through detailed studies at the subsector and product levels, it illustrates that: constraints in the manufacturing sector vary by country, sector and firm size; solutions to manufacturing problems cut across many sectors and require tackling issues in agriculture, education and infrastructure; and a focused approach with targeted interventions is necessary instead of the traditional approach of broad-based (macroeconomic or sectoral) reforms, p. 47. World Bank (2012) is backed by "a panoply of comprehensive and detailed research materials", p. 39, and reflects a keen engagement with empirical processes and structures of manufacturing. One would hope that this kind of research endeavour, rather than Lin's theoretical insistence on understanding development trajectories on the basis of comparative advantage, could constitute his scholarly legacy at the Bank. However, no manufacturing or industry "hub" exists in the Bank's research department, nor is there a formal research work programme on manufacturing as a minimal legacy of the NSE.[37]

Moreover, the extent to which any of the above recommended policies, whether in the macroeconomic or industrial policy realm, will prevail across Bank policies is difficult to assess as policies vary, in practice, across countries and regions. The broad policy matrix deployed by the Bank to determine the amount of (concessional) resources allocated to its poorest clients has, however, remained unaffected by these propositions, see Van Waeyenberge (2011). This observation draws attention to a peculiar feature of Lin as Chief Economist of the Bank, see also above. Across his various contributions, Lin displays a curious lack of interest in the way in which his NSE may affect Bank policies. Although a disconnection between scholarship and policies in practice has often prevailed at the Bank, this was often despite attempts by Chief Economists to affect Bank policy directions. Lin's industrial policy recommendations, such as regarding the provision of infrastructure, the establishment of industrial parks or the use of direct credits are made, however, without reflecting on how the institution's lending policies and practices from within which he is advocating these policies may condition the scope for their implementation. This is particularly so given the shifts in lending, from the public to the private sector, that have occurred across the World Bank Group, see

Kwakkenbos (2012) and Van Waeyenberge et al (2011), and the broader shifts in the international policy regime that have accompanied these, including the investment-related restrictions that prevail through membership of the World Trade Organisation or as a result of bilateral trade and investment agreements, see Lall (2004). The nature of the international financial institutions' response to the global economic and financial crises has, further, reinforced the prejudice against large government-funded policy initiatives, which stands out most clearly in the context of infrastructure.[38]

Lin's one-sided engagement from within the Bank, biased towards the ideational, transpires most blatantly from the nature of his proposition regarding a future role for the World Bank. In Lin and Rosenblatt (2012), such a role is understood entirely in "knowledge" terms, with little interest in the Bank as a lending and policy-making institution. Indeed, the financing function of the World Bank Group is likely to become progressively smaller compared to net private capital flows, in line with developments prior to the global financial crisis. This echoes former Bank President Wolfensohn's formal celebration of the Bank as a Knowledge Bank in the latter half of the 1990s. It also reflected an awareness that the Bank's financial weight was on the decline. When international capital markets appeared over- rather than under-liquid, the Bank's knowledge and experience of development were cast as a justification for a continuing role for the institution, see also Gilbert et al (1999). The Bank became identified as a source of "global knowledge". It would concentrate on becoming the world's premier development institution, forging a common agenda on major issues. Since the onset of the global economic and financial crisis, knowledge remains at the centre of the Bank's mission, in keeping with Lin's vernacular bordering on unwitting self-parody: "Today more than ever, development knowledge helps to define the Bank's comparative advantage", World Bank (2010, p. 1).

The Bank exercises its knowledge function in a variety of ways. This includes the research undertaken in its research department, the Development Economics Vice-Presidency, as well as the much larger knowledge endeavour that takes place across its operational departments through Analytical and Advisory Activities, AAA. The latter, mainly but not exclusively through Economic and Sector Work, ESW, seeks to operationalise the general policy directions that emerge from the Bank's research department for specific country or sector contexts and are designed with the explicit intent of influencing client countries' policies.[39] Lin's support for the Bank as a Knowledge Bank suffers from the traditional shortcomings of those who have advocated such a role in the past. Bank knowledge is understood in neutral or benign terms as the Bank is portrayed as a disinterested "memory bank of best practices". The creation and dissemination of development knowledge by the Bank is presented as an international public good, the supply of which would be deficient without active support by the Bank. As argued elsewhere, see Van Waeyenberge and Fine (2011), such an account implies a dramatic disregard for the socio-historical, political and economic contexts within which knowledge, including Bank knowledge, is produced, as well as for the socio-political or economic functions knowledge may fulfil. A host of critical commentaries on Bank knowledge, nevertheless, abounds and has drawn attention to a set of features including: the shareholder realities of the Bank; its embedded relationship with financial markets; and the implications of the prevalence of economics as the Bank's "high scholarly discipline", Kapur et al (1997). These broad governance features have concrete implications such that research resonating with neoliberal ideology is privileged and dissonant discourse is neither encouraged nor promoted, see Broad (2006). Rather than resembling a neutral, politically impartial or technical enterprise, the Bank's knowledge exercise needs to be understood within its political, economic and disciplinary contexts.

Lin combines his support for the Bank as a Knowledge Bank with a plea for a "democratisation of development economics", p. 34, or the promotion of a "multi-polar exchange of knowledge", p. 45. By this he means the diversification of the Bank's staff pool to include a greater proportion of representatives from the developing world. Others have previously raised concerns regarding the homogenous nature of the academic profile of Bank staff, dominated by economists, and mainly the product of graduate economics departments of English-speaking but, especially, US universities.[40] Lin himself, however, although a Chinese national, is an economist by way of the University of Chicago and is staunchly committed to the neoclassical principles of rationality and choice, see Lin (2012b).[41] His plea for a greater proportion of developing country staff as researchers at the Bank then reflects a concern that Northern economists fail to appreciate the nature of the constraints within which decision makers in developing countries make choices, rather than that neoclassical economics itself may fail to provide a conducive framework within which economic problems of development or any other kind can be understood.[42] Indeed, Lin (2012b) provides a passionate plea for the further promulgation of neoclassical economics in the South, where the combination of the application of the "quintessential economic logic" of rationality and choice with an alleged better appreciation of the constraints under which decision makers (firms, individuals or governments) would contribute to the modernisation of countries and the advance of economics:[43]

> I firmly believe that as long as economists in developing countries command the basic research methods of modern economics and focus on their indigenous issues, they can contribute to the modernization of their countries and the advance of economies. However, to achieve this, they need to truly grasp the *benti* (the fundamental premise – that is, the rationality assumption) of modern economics and approach any phenomenon firmly with a *changwu* (without any preconceived theory) mindset.

Lin's emphasis on indigenisation reflects an unfortunate attempt to overcome a genuine concern regarding economists' failure to engage with empirical realities. This does not plague Northern economists more than Southern, but emerges out of economics' fraught accommodation of reality as a result of its highly deductive approach, where reality is brought in as an afterthought on the basis of econometric testing of particular a priori propositions. Lin tries to navigate this conundrum but mistakenly attributes the lack of explanatory power of mainstream theories of economic development to the geographical origins of their practitioners rather than to the limits imposed by their disciplinary method and scope. His attempt to overcome shortcomings of "Western" economics as a guide to understand development is doomed to fail as his analysis remains staunchly committed to economics as a theory of choice based on the fundamental premise of rationality. Yet, Lin's discourse on indigenousness and neoclassical economics, not least as a result of the platform from where it was propagated, further contributes to the colonisation of development economics by neoclassical economics, to the detriment of a systemic and historically informed understanding of trajectories of development, situated within domestic and international relations, across political, economic, commercial and financial realms.[44]

It is, finally, a far cry from other indigenisation initiatives such as, for instance, the one launched by Mahmood Mamdani, Executive Director of the Makerere Institute for Social Research, MISR, through a new doctoral programme that seeks to produce researchers anchored in a tradition that historicises and contextualises phenomena, processes, and ideas. The programme at the MISR will seek "to combine a commitment to local knowledge production, rooted in relevant linguistic and disciplinary terms, with a critical and disciplined reflection on the globalisation of modern forms of knowledge and modern instruments of power", Mamdani (2011).[45] Interdisciplinarity sits at the heart of the programme, reflecting a recognition of the necessity to engage across politics, political economy and history in order to advance an understanding of local realities within global contexts and of the global from the vantage point of the local. Mamdani's initiative constitutes a response to the urgent need within the study of development to celebrate traditions that emphasise the historical and systemic, in counterpoint to the steadily encroachment of neoclassical principles and their narrow conception of the social or the economic. In addition, a broader and more comprehensive approach in the study of development would lead economic analysis beyond the flawed presumption implied by a national framework such as advanced by Lin in which any country would develop if only adopting the appropriate (latent comparative advantage) policies. Mamdani's plea also constitutes an attempt to offset the implications, intended or otherwise, which the Knowledge Bank has had for knowledge generation in the South through its manifold knowledge initiatives (including ESW or training provided through the World Bank Institute).[46] This has been compounded by the decline of the university as a centre of knowledge and learning in much of the poorer parts of the South – itself often the result of World Bank policies.[47] And, in contrast to Lin's agenda for the development of economics in the South, Mamdani's initiative holds better prospects for the articulation of progressive demands, where the (economic) ideational and policy realms have become dominated by neoclassical ideas and their derived neoliberal propositions, not in the least as a result of the significant knowledge, policy and lending roles performed by the Bank.

4. Conclusion

The chances are that Lin's programme for a new structural economics, unlike those of Krueger and Stiglitz, will prove a paradigm shift that never took place. Nonetheless, this does not mean that his attempt is of no significance since it reflects developments in scholarship, rhetoric and policy in practice at the Bank even if, for the latter, more by way of neglect. It is also liable to have some influence on the evolution of development economics (and studies) by virtue of its origins, and the weight these carry, if only reinforcing some trends and dispositions and weakening alternatives.

In short, it is worthwhile to unpick Lin on a broader canvas in the ways identified above. In summary, first, in the extreme form of lack of acknowledgement other than in passing of an alternative old structuralism, Lin's neoclassical economics finds no need for modification, let alone questioning in the wake of the crisis.

Second, though, this is not to suggest that Lin's, or others', neoclassical economics remains unchanging. It has to offer something "new" whether by way of an air of scholarly originality or in response to the crisis. On the longer view, not least in the wake of the PWC, this has involved a renewal of market imperfection economics that has allowed for a second phase of economics imperialism including a corresponding second phase of the new or the newer development economics. Dovetailing with the PWC, this has provided a rationale for piecemeal, discretionary intervention across the market-state (and civil society) dichotomy ("trichotomy") as well as increasingly appropriating the broader subject matter of development studies to an extraordinary extent despite an equally extraordinarily narrow set of analytical principles.

Third, in principle, such analysis is derived from the axiomatic and individualistic deductivism of the mainstream. But, in practice, commitment to such crudely proclaimed logic, rigour or scientism is opportunistic in two different ways. On the one hand, those deductive results that are inconvenient for purpose are simply cast aside as if they did not exist. This is apparent, as argued at length, in Lin's unquestioning reliance on the notion of (latent) comparative advantage. On the other hand, so confident is the mainstream in its abused (and flawed and narrow) principles that it has increasingly and seamlessly wedded them to whatever other elements it chooses irrespective of mutual consistency across methodology, method and theory.

Such intellectual opportunism is as free-ranging as it is chaotic. It leads some to presume, particularly in light of broader deployment of individual motivation through behavioural economics, that the mainstream is in a process of disintegration from without or upon its frontiers.[48] We prefer the descriptor of suspension as the core principles are retained, at least as a background, but more usually as a core or norm from which other considerations can be viewed as a source of deviation to explain the otherwise inexplicable or what otherwise cannot be incorporated. This does mean that the course and content of the mainstream cannot be taken as given and read off from its principles or purer versions. Indeed, plus ça change, toujours la même chose.

This is especially, if not logically necessarily, so of what has proven the mildest of intellectual and policy reactions to and against the current crisis in terms of the rationale and perceived scope for state interventionism. Whilst, as fully exposed here, this is to be expected of Lin and his stance of state minimalism in pursuit of a predetermined latent comparative advantage (and presented as some sort of paradigm shift to a new structural economics), what is possibly more surprising and disappointing is how readily such minor concessions have been warmly embraced, and engaged with, by erstwhile critical and heterodox development economists. Indeed, thirty years of creeping, even galloping, influence by the Bank over the fields of scholarship, rhetoric and policy in practice, have induced a corresponding loss of confidence in opponents previously in the vanguard, as most poignantly symbolised by the demise of the DSP to the status of a failed buzzword.[49] Significantly, with the, in some respects, peculiar exception of Wade,[50] the DSP might just as well not exist as far as both Lin <u>and</u> his more interventionist critics are concerned.[51]And, over a wider range of literature, there would appear to be the equivalent of a conspiracy to forge analytical principles, postures and their application allowing for the possibility of interventionism in principle but containing it in practice.

Unsurprisingly, such perspectives are strongly underpinned by international scholarship and organisations. Thus, whilst UNCTAD has long voiced its concerns over the role of finance in undermining potential for policies that underpin developmental goals, only now that circumstances might allow it a louder voice to a more influential audience, has its legitimacy in doing so been challenged.[52] Meanwhile, "diagnostics" blossom in order to enable the state to constrain itself to supporting the private sector. Weiss (2011), addressing industrial policy in the current century, is typical; in his abstract, he "makes a case for a pragmatic and limited approach to interventions as a means of stimulating industrialization in the context of current and future challenges facing newly industrializing countries". One of his concerns is that more interventionism is required where it is least likely to be successfully adopted, as echoed by Peres (2011) for Latin America. The ethos is one of cautious, piecemeal, context-specific intervention as far as industrial policy is concerned. And, by the same token, the UNRISD attempt to put the developmental welfare state, DWS, is notable as an exception that fails to be adopted in theory let alone in practice. The point is not so much to see the DSP and DWS as uncritically acceptable as alternatives to the new almost universal pessimism over anything other than minimal state intervention. Rather it is to highlight the weaknesses of presence let alone influence of alternatives. This is the context within which to locate the broader role of the World Bank in scholarship, rhetoric and policy in practice, and as putative Knowledge Bank whose portfolio of intellectual assets is at the opposite extreme to the variety offered by the financialisation that it continues to support with such fervour and at such expense.

Footnotes

[1] No less prolific since departing office, Lin has already published a further volume, publicity for which describes him as the "architect of China's economic reform", http://www.odi.org.uk/events/3023-developing-economies-grow?utm_source=newsletter&utm_medium=email&utm_campaign=20121220

[2] http://blogs.worldbank.org/psd/from-old-taboo-to-new-consensus-industrial-policy-and-competitive-industries-pt-1

[3] He replies to comments from others, including Ha-Joon Chang, Anne Krueger, Dani Rodrik and Joe Stiglitz under the heading, "Rejoinder: Development Thinking 3.0: The Road Ahead", p. 66.

[4] Although this was clearly Krueger's intention, see Krueger (1986, p. 62).

[5] Arguably, Krueger made the greatest impact through facilitating the new development economics for which Stiglitz at most took market imperfections as point of departure.

[6] For critical account of the PWC as an outcome of the "newer development economics" in these terms, see Fine et al (eds) (2001), Jomo and Fine (eds) (2006) and Bayliss et al (eds) (2011). On the broader thrust of the newer economics imperialism on which it depends, see Fine and Milonakis (2009). Note, Lin's studied disregard for the PWC is revealed by the index entry in his book which reads "Stiglitz, Joseph E., 56, 58, 59, 66, 67, 72–75, 78, 290, 313*n*17", but all but the last two of these are made by Stiglitz himself in his included commentary. Perhaps this neglect of his work and paradigm induced the diplomatic Stiglitz, as a sort of Bank Chief Economist in exile, to allow his own contribution to meander off on a scarcely relevant tangent around the issue of the "learning society".

[7] Comparative advantage appears no less than 467 times in Lin (2012), warranting half a page as an index entry.

[8] For Lin, p. 137:

> neoclassical economics is simply a useful tool in all this, not a constraint. It is flexible enough to model the externalities, dynamics, and co-ordination failures that give the government a role to play, while also providing the metrics to judge whether government is supporting industries that take the economy too far from its areas of comparative advantage.

It is worth emphasising how much such an approach is broadly acceptable to those opposed to neoliberal orthodoxy. For Rodrik, for example, implicitly responds, "He wants to marry structuralism with neoclassical economic reasoning, and I applaud this idea too. So he has two cheers from me. I withhold my third cheer so I can quibble with some of what he writes", p. 53. This is hardly surprising given Rodrik's own stance that for, "*social* phenomena" neoclassical economics offers "*the only sensible way* of thinking about them". Chang is more circumspect and explicitly disagrees, p. 138:

> Justin emphasises that neoclassical economics is flexible enough to allow us to deal with all the complex issues arising during the development process. I think it is not enough.

However, he has previously conceded, pp. 133/4:

> I think that, deep down, Justin and I actually agree … Once Justin frees himself from the shackles of neoclassical economics, our debate will be more like two carpenters having a friendly disagreement over what kind of hinges and door handles to use for a new cabinet that they are building together, on whose basic design they agree.

[9] As Reinert (2012, p. 6) puts it:

> Economics *de facto* returned to the "colonial" postulates of David Ricardo: that the international economy could and ought to be based on nations bartering labour hours: What a nation produced – industrial high-technology or subsistence agriculture – did not matter.

[10] These are adopted from the parallel problem of under what circumstances the notion of effective rate of protection is legitimate, see Deraniyagala and Fine (2001 and 2006).

[11] With an import and an export, this implies an absence of non-traded goods, not least whatever government itself does. The following is ironic, to say the least, and false (given that Barro-type regressions address more than a hundred variables), with two pots calling the single kettle black, p. 169:

> In the growth literature, structural change has not received as much attention as technological change because of the use of a one-sector model, which is incapable of handling issues related to structural change, in the standard growth accounting and regression research.

Note that, like many others including critics of the new growth theory, Lin accepts that the old growth theory predicts conditional convergence, p. 87. This is a purely ex post ideological construct of the new growth theory since old growth theory made no such predictions, believing that cross-country analysis was inappropriate (since the determinants of technical change and productivity increase were to be excluded, taken as country-specific and exogenous to the theory, not reduced to free flow of resources and technology or not).

[12] Otherwise comparative advantage can change depending upon distribution of preference patterns across countries just as for factor reversals, see next point.

[13] Thus, if income increasingly goes to a country that is both relatively rich in labour and whose preferences shift from capital-intensive to labour-intensive products as income rises, then comparative advantage will also shift as it will import capital-intensive goods at low levels of income and labour-intensive at high.

[14] See Singh (2011) for a critique of Lin for his failure to get to grips with the deficiencies of the World Bank case for openness even if rejecting the absolute antipathy to industrial policy.

[15] The classic examples of this are the Cambridge Critique of Capital Theory (undermining the use of one-sector production functions), the theory of the second best for policymaking (undermining the rationale for shift towards market forces if not making them completely perfect), and the presumption of the existence of a unique,

stable and efficient general equilibrium (for which any number of restrictive assumptions are necessary).

[16] And are developed at length in Lin's (2009) Marshall Lectures.

[17] See Krueger in the Lin volume.

[18] See debate with Chang, and as discussed in Wade (2011) who suggests, p. 235:

> The underlying argument seems to be that we know that Japan and Korea succeeded in the given industries, therefore those industries must have been within their existing comparative advantage. It smacks of tautology.

There is also a revealing account by Lin in response to Stiglitz of Swiss industry and why its watches conform to the new structural economics, conveniently overlooking its rather differently seized latent comparative advantage for nuclear power, p. 73/4. But no doubt the latent thread between these sectors can be cleverly constructed.

[19] To be fair, Lin continually refers to continuous technological upgrading and the like as characteristic of development. But, it should be added, this is less invention than accruing the benefits of latecomers in following latent comparative advantage, and so "exploit the latecomer advantages by developing matured industries in dynamically growing, more advanced countries with endowment structures similar to theirs. By following carefully selected lead countries, latecomers can emulate the leader-follower, flying-geese pattern that has served well all successful economies since the 18th century", p. 226. See below for the flying geese syndrome.

[20] Inevitably, a striking example of this is to overlook entirely the whole "institutional" history of colonisation, plunder, slavery, etc, as examples of latent comparative advantage violently grasped and supported.

[21] The classic example here is offered by Krugman much of whose body of work rests on increasing returns to scale for which the logic to intervene to benefit is inescapable. As Hay (2011, p. 471) neatly puts it of Krugman:

> Significantly, he concedes that 'there is more to life and even to international trade than comparative advantage' … and that under certain specific conditions (perhaps even those pertaining in the above example) the case for protection and certainly intervention is a good one. Yet what he gives with the one hand he takes away with the other. For, despite conceding a place for strategic intervention within a positive sum theory of trade, he goes on to argue that such a case for selective protection should not be made publicly—since our 'mercantilist' political elites (who are either too stupid, too intransigent or both) will take it as an excuse for the kind of universal protectionism to which he sees them as inexorably drawn.

See also p. 466, fn 1, and Fine (2010).

[22] Weiss (2011, p. 4) neatly sums up the differences, and closeness, between Lin and Chang (2009):

> The difference in approach to economic distance underlies the debate on industrial policy between Lind (sic) and Chang … When Lin writes of a facilitating state that supports activities with a comparative advantage and Chang of a more interventionist state that funds technological upgrading, they are, in effect, discussing different strategies towards distance, with Lin advocating a move to closer and Chang to more distant product lines to those in which an economy is currently specialized.

[23] The section of the book entitled, "Financial Structure and Economic Development", is reported as co-authored with Lixin Colin Xu from a paper presented to the Sixteenth World Congress of the International Economic Association in Beijing, July, 2011. See also Lin et al (2009), listed as 2011 in the book.

[24] We do not address the reliability of the econometric studies as such but would observe the self-serving role these play, as emphasised by Deaton (2006) and Bayliss et al (ed) (2011). Note the conclusions, though, based on a sample of developed and emerging economies, from Cecchetti and Kharroubi (2012, p. 15):

> In this paper, we study the complex real effects of financial development and come to two important conclusions. First, both the size and growth of a country's financial system can be a drag on productivity growth. That is, there comes a point where further enlargement of the financial system can reduce real growth. And, because the financial sector competes with the rest of the economy for resources, financial booms are not, in general, growth-enhancing. Second, using sectoral data, we examine the distributional nature of this effect and find that credit booms harm what we normally think of as the engines for growth: those that are more R&D-intensive. This evidence, together with recent experience during the financial crisis, leads us to conclude that there is a pressing need to reassess the relationship of finance and real growth in modern economic systems. More finance is definitely not always better.

See also footnote below.

[25] In a sort of background paper for the book, Lin et al (2009), there is demonstrated an astonishing mix of arrogance, simplicity and sheer historical invention, as economic and financial history is relegated to a footnote of the most grandiose proportions and which is worth quoting in full, reference to Madison only omitted, p. 21:

> Our hypothesis provides a new explanation for differences in financial structure between the Japan-Germany model and the U.S.-U.K. model. It is well documented that the bank was more prominent in Japan and Germany whereas the financial market was more prominent in U.S and U.K. From Industrial Revolution to the beginning of the 20th century, U.K. had been the most advanced country in the world. The United States has replaced the U.K. to be the most advanced country in the world since WWI. The leading industries and technologies in the U.K. and then in the United States have been at the world technology frontier. Therefore, financial markets which can mobilize huge amount of capital and diversify technological innovation risk and product innovation risk have been very active in the two countries' financial system. Germany and Japan were on a catching up progress until 1980s, measured by their per capita … The leading

> industries and technologies in Japan and Germany were thus inside the world technology frontier before the 1980s. So firms in these two countries assumed less risk than their counterparts in the United States and the United Kingdom. Therefore, banks played a more important role in Japan and Germany than in the U.S. and the U.K. Naturally, as the Japanese and German economies develop, their leading industries and technologies are increasingly closer to the world technology frontier. Correspondingly, financial markets are more and more important in Japan and Germany as well, thus their financial structure is becoming more similar to that of the U.S. and U.K.

[26] Inevitably, elsewhere, Lin appeals to Gerschenkron as supporting the idea of latecomer catch-up of latent comparative advantage.

[27] We cannot address here Lin's simplistic and self-serving account of China's economic transformation.

[28] We leave aside the issue of the success of banking systems resting less on the resolution of inner informational asymmetries and more on outer certainties concerning the role of the state in finance, macroeconomic and industrial policy, see Fine (1997).

[29] Significantly, the previously unquestioned positive relationship between financial development and economic performance is now being questioned, even from the IMF, albeit with arguments and motives that cannot be critically assessed here and which differ from Lin's (other than at most conceding minimal role for state intervention). See Arcand et al (2012).

[30] See http://www.hks.harvard.edu/fs/drodrik/GrowthDiag.html It lists over thirty countries to which diagnostics have been applied to identify "binding constraints". Note that the title of Rodrik (2007), "One Economics, Many Recipes", innocently but almost exactly, captures the deployment of a suspended neoclassical economics.

[31] There is also a set of commissioned industrial policy studies for Africa, see below. They are striking for emphasising scale economies as the driving force of productivity increase despite this being inconsistent with comparative advantage, latent or otherwise. For example, World Bank (2012, p. 37) concludes:

> In light manufacturing, in particular, a prerequisite for exporting today is having the capability to fulfill large orders competitively (price and quality) and quickly. Both require tapping into scale economies associated with labor-intensive, assembly-line production chains - that is, large firm operations. By definition, smaller firms cannot do this.

Note these depend, then, upon both increasing returns to scale and heterogeneity of productivity of firms. These are associated, even within the mainstream, with so-called the new trade theory and the new, new trade theory, respectively, each of which is still attached to laissez-faire despite analytical thrust otherwise, but each of which is also entirely destructive of the notion of comparative advantage (based on factor endowments). Neither essentially is acknowledged by Lin's NSE.

[32] See Fine (1997) for this in context of South Africa and Fine (2011) for more general and updated account.

[33] As put by Whittaker et al (2008, p. 13):

> Global value chains embody three new dynamics; the fragmentation of value-added chains, the geographic dispersal of the fragments, and the functional integration, of work, firms and of entire industries across borders.

[34] See Bayliss and Fine (eds) (2008) and Bayliss et al (eds) (2011).

[35]See also http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:23145745~pagePK:34370~piPK:34424~theSitePK:4607,00.html

[36] This includes a recognition that fast output and productivity increases in manufacturing can proceed "despite the presence of problematic institutional arrangements", p. 45. Drawing on the experience of China, it is recognised that protection of private property rights is not a necessary condition for manufacturing to thrive, nor is access to bank lending or formal financial markets.

[37] Email communication with lead author of World Bank (2012). See also Wade (2012, p. 235):

> Lin's arguments are an important new development in the industrial policy debate, especially because they come from the chief economist of an important norm-setting body, the World Bank. This is not to say that chief economist Lin and his ideas for strategic government intervention in industrialization have persuaded most World Bank economists. Lin himself says that less than 10% of World Bank economists are sympathetic to his arguments. My own field work in the Bank during the summer of 2010 revealed that many dismiss his arguments with the annoyance one might direct towards a fly. "For every Korea there are 100 failures. Who would you put your money on?", declared one senior official.

[38] See also Hildyard (2012).

[39] The Bank further offers a vast training programme through the World Bank Institute, sponsors a host of knowledge networks such as, for instance, the Global Development Network, and provides support for various economic research centres across the world.

[40] There has been an increase in non-economist social scientists as research staff in the Bank, albeit outside its research department, but these non-economists employed within the Bank have tended to leave economic issues unchallenged, trying to peg their own concerns onto an otherwise undisturbed economic agenda, see Fine (2001) and Leiterliz and Weaver (2005).

[41] Lin (2012b) is dedicated to Gary Becker, "who taught me the spirit of modern economic analysis". This might reasonably be thought to explain his commitment to understanding the economy in terms of (minimal to be corrected) deviations from perfectly working markets. For Becker is best known for applying the logic of neoclassical economics across any area of social life, where all human action, whether in the context of the family, crime, or addiction is understood solely in terms of rational optimisation under constraints, see Fine and Milonakis (2009). Unlike those such as Stiglitz and Rodrik, he does this on the basis of as if perfectly, as opposed to imperfectly, working markets whilst sharing in common the technical apparatus and architecture of neoclassical economics.

[42] Lin's credentials as the first Chief Economist from the South have been widely paraded. The gossip is that his successor appointed from September 2012, Kaushik Basu, undertook an otherwise previously unexplained move back to India from Cornell in 2009

to take up a post, Chief Economic Advisor, in government for the first time. Wikipedia innocently reports that, "More recently, he has worked on aggregating infinite streams of returns, and the axiomatic structures, pertaining to inter-generational anonymity and different forms of the Pareto principle, that such aggregations can satisfy", http://en.wikipedia.org/wiki/Kaushik_Basu#cite_note-1

[43] There is a striking affinity here between the economics to be deployed and the ethos of good governance and country ownership of policy; indigenous participation (in economics) as long as it conforms with what the Bank would do anyway.

[44] See Fine (2009a) on how development economics was captured by economics imperialism and on how economics increased its influence over development studies more generally.

[45] See also Mamdani on Stiglitz, http://pambazuka.org/en/category/features/83875

[46] Indeed, the development of Lin's career at the University of Peking was itself effected by a knowledge initiative of the Bank, when it provided a large proportion of the initial funding for the China Centre for Economic Research of which Lin was the founding director.

[47] See Samoff and Bidemi (2003) for an account in the context of Africa.

[48] See Fine and Milonakis (2011).

[49] See Fine et al (eds) (2013) for the developmental state as a "failed buzzword".

[50] Wade (2010 and 2012) does appear to be committed to retaining the notion of the developmental state, in part to be able observe, like others before him, that there has been both extensive presence of industrial policy within the USA, and elsewhere, and the failure to acknowledge it as such. But, in his admittedly short response to Lin, the developmental state does not warrant a mention as opposed to the welcoming of acknowledgement of some role for industrial policy, as indicated by his title, "Why Justin Lin's Door-Opening Argument Matters for Development Economics", Wade (2011).

[51] The term "developmental*" only appears six times in Lin's book, as: "developmental stages", p. 60; "developmental studies", p. 61; "developmentally oriented state", p. 119; "developmental banks", p. 154; in a reference, p. 178; and "developmental policy" in a cover puff provided by Stiglitz.

[52] See Ghosh (2012) for an account.

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