

A Paradigm Shift that Never Was: Justin Lin's New Structural Economics

BEN FINE

School of Oriental and African Studies, University of London, UK

ELISA VAN WAEYENBERGE

School of Oriental and African Studies, University of London, UK

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. First, he launched his framework when he was Chief Economist at the Bank. Critical scrutiny of his proposition then allows for continued insights into the complex relationship between scholarship and policy at the Bank. 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, nevertheless, 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, accompanied by a persistently narrow policy scope.

KEYWORDS World Bank, New Structural Economics, Knowledge Bank, Development Economics, Development Policy, Industrial Policy

Introduction

In 2008, Justin Lin was appointed Chief Economist at the World Bank. He succeeded Francois Bourguignon, who had taken over from Nicholas Stern who had himself stepped in after a brief and tumultuous spell under Joseph Stiglitz. Lin was the first Chief Economist of the World Bank to be a national from the South. As his term drew to a close in 2012, 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). This included

what appeared at times as 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’.¹

Lin’s attempt at redefining development economics in general and, presumably as its Chief Economist, to whatever degree, on behalf of the Bank requires scrutiny. Significantly, Lin’s emphasis on industrial policy was projected from within the institution which had previously sounded its death knell, most emblematically through the East Asian Miracle Report, (World Bank 1993). Lin’s new development paradigm also emerged against the backdrop of earlier such explicit attempts, particularly the one initiated by Joseph Stiglitz (1998), equally whilst in office as Chief Economist at the Bank.

This study pursues these issues further and, more broadly, seeks to draw on Lin’s contributions as a lens through which to reflect on trends and developments in development economics and policy, and the role of the World Bank therein. We proceed as follows. Section two situates the analytical prism we seek to deploy in scrutinizing Lin’s contributions. Following earlier work, we emphasize the importance of understanding Bank work in terms of complex and uneven relationships between scholarship, rhetoric and policies. Section three provides an elaborate critique of the core analytical propositions that constitute Lin’s NSE, and is organized around a critical engagement with its central notion of comparative advantage. 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.

Lin’s policy, scholarship and advocacy at the Bank

In previous work, we have emphasized 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 (Fine, 2001; Bayliss *et al*, 2011). The exact nature of relationships across this troika is not necessarily one of consistency, nor of detachment, and the way in which these relationships are formed and evolve, is different across time, place and issue. We apply this insight as a guiding principle for our critical appraisal of the attempt by Lin (2012a) to redefine development economics and renew the case for industrial policy.²

In terms of ideology, Lin’s posture can be seen from two conflicting perspectives. On the one hand, he is no pure 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 Lin (2012a). 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 neo-liberalism in which industrial policy, in particular, has been held to be an anathema.

To some degree, however, the association of neo-liberalism with free markets is misleading as it has never been non-interventionist. As argued elsewhere neo-liberalism in general, and the Washington Consensus in particular, has 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 (Fine, 2012). Moreover, the post Washington Consensus (PWC) can be understood as reflecting the same goals in a second phase of neo-liberalism, following its first shock phase. It rationalizes 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 policy in practice, though, on a broad brush, the PWC has, if anything, hardened on, rather than departed from, those policies 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 predecessors and as an improvement upon them. For Lin (2012a: 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'. Analogous to iterations of software, Lin refers to his contribution as 'Mark 3.0'. Second, Lin makes no mention of the PWC. This is odd given that it was launched from within the Bank by his much-celebrated predecessor (and future Nobel Laureate).³ However, whereas, of other Chief Economists, only Stiglitz has claimed to redefine the field, Lin has substantively less to offer than Stiglitz. Instead, central to Lin's whole analytical edifice is the notion of comparative advantage, a notion that can only have any legitimacy in a world of perfect competition.

Drawing on his NSE, Lin can then be seen as 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 organized 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.

From comparative advantage to development: Lin and the New Structural Economics

In Lin's 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 characterized 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 for different types of production activities. Developing industry following this comparative advantage provides the optimal path for a country. It 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' comparative advantage.

For a country's comparative advantage to be revealed to the private sector, the main agent in industrial upgrading, relative factor prices must fully reflect scarcities. This necessitates 'effective' competition in factor markets. The role of 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 by compensating for externalities generated by first movers in the growth process. This is in addition to the government's more traditional infrastructure-improving role. The framework proposed by Lin is then three-pronged (2012a: 101): it is centrally organized 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.

Comparative advantage: panacea or conundrum?

Critical for Lin is the notion of comparative advantage. However, despite its significance, it is 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. For 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 specialize and trade in the product for which it has a comparative advantage, and this will be brought about by free trade.

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 disadvantage. These problems are compounded by incorporation into the neoclassical framework. 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, a country's comparative advantage for a product is liable to depend on the comparative endowments for producing it and whether its production is skewed, comparatively, towards depending upon use of the factors in which it is well-endowed. Here, there is a huge analytical shift from the optimizing *individual* to *national* endowments. This thoughtless slippage between levels of analysis is endemic within mainstream economics, not least with intra-national distribution let alone when considering national endowments.

Even setting these considerations aside, let us identify 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.⁴ First, there can be at most two sectors in the economy⁵ (and only two countries as well).⁶ 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).⁷ 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.

In other words, the notion of comparative advantage is problematic whether conceptually, empirically or policy-wise. It should be emphasized that these considerations arise from *within* the apparatus of neoclassical economics itself, not by virtue of some external critique. However, like many other, if not most, neoclassical economists, Lin ignores these deductive implications when they are inconvenient.⁸ For then, Lin proceeds to deploy the problematic 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 first element that is reintroduced 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, 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. The second reintroduction is for comparative advantage to change over time with changing factor endowments (as capital is accumulated). However, comparative advantage is unambiguously a product of comparative statics, of given endowments, preferences and technologies. Third, and more specifically, Lin allows for the role of foreign direct investment (internationally mobile capital) and for the impact of the financial sector.

The outcome of these reintroductions into the model of comparative advantage is that they constitute a departure from any foundation within neoclassical economics. Comparative advantage is identified through a lurch away from theory to a more or less casual empirical conformity with 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: countries with similar factor endowments who are a number of years or income per capita ahead are picked as comparators, and institutions/infrastructure are to be furnished to emulate them.

Such problematic deployment of the comparative advantage concept is already in place in Lin's (2003, 2009) earlier work, reproduced in Lin (2012a). It is presented in terms of a choice between policy that targets being either comparative advantage following, CAF, or comparative advantage defying, CAD. However, if comparative advantage does not stand independently, how is it possible to 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, reproduced as guest contributions in Lin (2012a), for Lin is neatly sandwiched between those who are more and those who are less interventionist than him, albeit on the basis of acceptance of arguments

around comparative advantage. For the more interventionist, the dichotomy is made between picking and creating winners, and they are more inclined to go for both rather than be confined to merely 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 — all both pick and create winners.

Perhaps the only option is to pick or create losers as is emphasized by the old, Washington Consensus guard who, to parody, are convinced that all policy is potentially rent picking and creating whether CAD or CAF.⁹ 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.

Beyond the newer development economics?

With little or no refinement of these analytical postures, Lin (2012a) has sought to project his flawed CAD/CAF framework across the field of development economics. How he does so is of revealing significance. First, the earlier CAD/CAF framework is itself more or less abandoned. Instead, we are offered a shift in terminology to *latent* comparative advantage, the comparative advantage in the making, worthy of limited state support. Of course, substituting a change of terminology does not resolve the issue of flawed concept. And, as Fine (2012) suggests, to interpret successful industrialization as the correctly pursued support of such latent comparative advantage is to border on the tautological.

Second, Lin has, transparently, wedded himself to some sort of structural economics. 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 projected into the world of structural transformation. 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, 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, in departure from Rostow, for Lin (2012a: 26):

For the new structural economics, economic development from a low level to a high level is a *continuous* spectrum, not a mechanical series of five distinguished levels (emphasis added).

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

Although we have already indicated that the 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. 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 and there is a notable absence of substantive reference to institutions. 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 an unexamined device, much like in the old welfare economics, and merely serves to resolve, or not, the problems that he has himself created by his analytical schema. 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 *state* (and *government*), *institutions* and *infrastructure* since each plays the same role, or not, as a 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 neo-liberalism to a (diluted) developmental statism, see below for the latter. With the state 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.

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). As a result, Lin's position is, in a sense, peculiarly logical because it both fails to recognise the indeterminacy of neoclassical economics and the corresponding implications for indeterminacy of (successful) developmental paths (otherwise, he could not 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).

Further, Lin's recourse to neoclassical economics is peculiarly casual as his analysis ranges over whatever explanatory factors he cares to select irrespective of their roots within, and/or consistency with, the framework of the optimizing 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.

Significantly, Lin provides a case study of Nigeria that illustrates these points of 'suspended' neoclassical economics, and even takes them further by suggesting that

industrial policy needs to combine vertical (within sector) and horizontal (across sectors) considerations. 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. This analysis also draws upon a state versus market analytical dichotomy, with a relative absence of the global, systemic processes such as financialization, 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 materialize.

Elsewhere, such limitations have been critically addressed at length in the context of the developmental state paradigm, DSP, by 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).

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, and the position of China across them as it straddles both high and low tech industries (Fine, 2011). Thus, despite the constrained departure from the dogma of the Washington Consensus, Lin's orientation remains one of (latent) 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.

Lin and the World Bank

So where does this leave Lin as Chief Economist of the Bank. What about the relationship between his analytical propositions, paradigmatic proclamations, and the Bank's policies in practice? This section explores these issues and reflects on Lin's projected understanding of a future role for the Bank. It teases out his remarkable failure to explore the policy implications of his scholarship in the context of Bank policy. In this respect, there is a significant contrast with Stiglitz as one of his predecessors at the Bank, given that Stiglitz's paradigm shift was deliberately designed to inform a major change in broad and detailed policymaking across the Washington institutions. What Stiglitz achieved in practice is another matter, given his enforced departure from the Bank. Consequently, for Lin, as for Stiglitz, the worlds of scholarship and policy at the Bank occupy parallel universes.

NSE and Bank policy in practice

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 (2012a: 30). Monetary policy should be geared towards low interest rates to encourage investments in infrastructure, rather than that interest rates are set with the main purpose of price stability (2012a: 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, (2012a: 32). Further, appropriate sequencing is emphasized in the context of liberalization of domestic finance and foreign trade, (2012a: 33), and a differential policy environment is prescribed to regulate foreign direct investment compared with portfolio investment. This favours the former rather than the latter, (2012a: 34). (Capital controls remain absent from the policy narrative.) Finally, the importance of well-designed policy on 'human capital' development is highlighted, to include measures that foster skills to facilitate the upgrading of industries (2012a: 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: 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, (World Bank 2012: xiv). Significantly, through its engagement with empirical realities, it 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, structures 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).¹⁰ 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 otherwise. 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 overcomes 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 characterized 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 other 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, (World Bank, 2012: 47). The World Bank (2012) then reflects a keen engagement with empirical processes of manufacturing, and one could have hoped that this kind of research endeavour would have constituted Lin's scholarly legacy at the Bank, rather than his theoretical insistence on understanding development trajectories on the basis of comparative advantage. 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.¹¹

Moreover, the extent to which any of the above recommended policies, whether in the macroeconomic or industrial policy realm, prevails 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 (Van Waeyenberge, 2011). This observation draws attention to a peculiar feature of Lin as Chief Economist of the Bank. 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 Bank lending policies and practices 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 (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 Organization or as a result of bilateral trade and investment agreements (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.¹²

Celebrating the World Bank's knowledge?

Lin's one-sided engagement from within the Bank, biased towards the ideational, transpires perhaps most blatantly from his proposition regarding a future role for the World Bank. In Lin and Rosenblatt (2012), such a future role is understood entirely in 'knowledge' terms, with little interest in the Bank as a lending and policy-making institution. For them, 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 which, at the time, 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.* (2000). 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: 'Today more than ever, development knowledge helps to define the Bank's comparative advantage', (World Bank, 2010: 1).

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 and 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 its active support. 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 neo-liberal 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', (2012a: 34), or the promotion of a 'multi-polar exchange of knowledge', (2012a: 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. 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, (Lin 2012b). His plea for a greater proportion of developing country staff as researchers at the Bank 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.¹³ 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 modernization of countries and the advance of economics.

Lin's emphasis on indigenization then 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 geographic origins of their practitioners rather than to the limits imposed by their disciplinary method and scope. His attempt to overcome shortcomings of 'Western' economics is doomed to fail as his analysis remains staunchly committed to economics as a theory of choice based on the fundamental premise of rationality. However, Lin's discourse on indigenism and neoclassical economics, not least as a result of the platform from where it was propagated, further contributes to the colonization 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.¹⁴

It is, finally, a far cry from other indigenization 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 historicizes and contextualizes phenomena, processes, and ideas. The programme at the MISR seeks '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).¹⁵ 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 emphasize the historic and systemic, in counterpoint to the steady encroachment of neoclassical economic principles and their narrow conception of the social or the economic. In addition, a 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 policies. Mamdani's plea finally 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 training provided through the World Bank Institute).¹⁶ 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.¹⁷ 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 neo-liberal propositions, not in the least as a result of the significant knowledge, policy and lending roles performed by the Bank.

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 to display 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, focusing on identifying and correcting market and institutional imperfections. 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. However, 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 above, 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.¹⁸ 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 symbolized by the demise of the DSP to the status of a failed buzzword.¹⁹ Significantly, with the, in some respects, peculiar exception of Wade (2010 and 2012), the DSP might just as well not exist as far as both Lin and his critics are concerned. 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 organizations. 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.²⁰ 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, on the agenda, 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 knowledge bank whose portfolio of intellectual assets is at the opposite extreme to the variety offered by the financialization that it continues to support with such fervour and at such expense.

Notes

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

² 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. These contributions primarily derive from the time that Lin has been at the World Bank. However, the NSE builds on 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.

³ For a critical account of the PWC as an outcome of the ‘newer development economics’, 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).

⁴ 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).

- ⁵ With an import and an export, this implies an absence of non-traded goods, not least whatever government itself does.
- ⁶ Otherwise comparative advantage can change depending upon distribution of preference patterns across countries just as for factor reversals, see next point.
- ⁷ 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.
- ⁸ A classic example of this is the theory of the second best for policymaking, which undermines the rationale for shift towards market forces if not making them completely perfect.
- ⁹ See Krueger in Lin (2012a).
- ¹⁰ This includes a recognition that fast output and productivity increases in manufacturing can proceed 'despite the presence of problematic institutional arrangements', (World Bank 2012: 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.
- ¹¹ Email communication with lead author of World Bank (2012). See also Wade (2012: 235).
- ¹² See also Hildyard (2012).
- ¹³ 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.
- ¹⁴ See Fine (2009) on how development economics was captured by economics imperialism and on how economics increased its influence over development studies more generally.
- ¹⁵ See also Mamdani on Stiglitz, <http://pambazuka.org/en/category/features/83875>.
- ¹⁶ Indeed, the development of Lin's career at the University of Beijing was itself affected 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.
- ¹⁷ See Samoff and Bidemi (2003) for an account in the context of Africa.
- ¹⁸ See Fine and Milonakis (2011) for discussion.
- ¹⁹ See Fine et al. (eds) (2013) for the developmental state as a 'failed buzzword'.
- ²⁰ See Ghosh (2012) for an account.

References

- Bayliss, K. and B. Fine (eds) 2008. *Whither the Privatisation Experiment?: Electricity and Water Sector Reform in Sub-Saharan Africa*, Basingstoke: Palgrave MacMillan.
- Bayliss, K., B. Fine and E. Van Waeyenberge (eds) 2011. *The Political Economy of Development: The World Bank, Neo-Liberalism and Development Research*, London: Pluto Press.
- Broad, R. 2006. 'Research, Knowledge and the Art of 'Paradigm Maintenance': The World Bank's Development Economics Vice-Presidency (DEC)', *Review of International Political Economy*, vol. 13, no 3, pp. 387–419.
- Chang, K-S., B. Fine and L. Weiss (eds) 2012. *Developmental Politics in Transition: The Neoliberal Era and Beyond*, London: Routledge.
- Deraniyagala, S. and B. Fine 2001. 'New Trade Theory Versus Old Trade Policy: A Continuing Enigma', *Cambridge Journal of Economics*, vol. 25, no 6, pp. 809–25.
- Deraniyagala, S. and B. Fine 2006. 'Kicking Away the Logic: Free Trade is Neither the Question Nor the Answer for Development', in Jomo and Fine (eds) (2006).
- Fine, B. 1997. 'Industrial Policy and South Africa: A Strategic View', NIEP Occasional Paper Series, no 5, Johannesburg: National Institute for Economic Policy.
- Fine, B. 2001. *Social Capital versus Social Theory: Political Economy and Social Science at the Turn of the Millennium*, London: Routledge.
- Fine, B. 2009. 'Development as Zombieconomics in the Age of Neo-Liberalism', *Third World Quarterly*, vol. 30, no 5, pp. 885–904.
- Fine, B. 2010. 'Flattening Economic Geography: Locating the World Development Report for 2009', *Journal of Economic Analysis*, vol. 1, no 1, pp. 15–33.
- Fine, B. 2011. 'Locating the Developmental State and Industrial and Social Policy after the Crisis', UNCTAD, *The Least Developed Countries Report 2011: The Potential Role of South-South Cooperation for Inclusive and Sustainable Development*, Background Paper, no 3, 2011, http://www.unctad.org/Sections/ldc_dir/docs/ldcr2011_Fine_en.pdf.
- Fine, B. 2012. 'Neo-Liberalism in Retrospect? — It's Financialisation, Stupid', in Chang *et al.* (eds) (2012).
- Fine, B., C. Lapavistas and J. Pincus (eds) 2001. *Development Policy in the Twenty-First Century: Beyond the Post-Washington Consensus*, London: Routledge.

- Fine, B. and D. Milonakis 2009. *From Economics Imperialism to Freakonomics: The Shifting Boundaries Between Economics and Other Social Sciences*, London: Routledge.
- Fine, B. and D. Milonakis 2011. "Useless but True": Economic Crisis and the Peculiarities of Economic Science', *The Isaac and Tamara Deutscher Memorial Prize Lecture, Historical Materialism*, vol. 19, no 2, pp. 3–31.
- Fine, B., J. Saraswati and D. Tavasci (eds) 2013. *Beyond the Developmental State: Industrial Policy into the 21st Century*, London: Pluto.
- Gerschenkron, A. 1962. *Economic Backwardness in Historical Perspective*, Cambridge: Harvard University Press.
- Ghosh, J. 2012. 'UNCTAD is Astute and Progressive: So Why Don't Developed Countries Like It?', http://www.networkideas.org/news/may2012/print/prnto2052012_UNCTAD.htm.
- Gilbert, C., A. Powell and D. Vines 2000. 'Positioning the World Bank', *Economic Journal*, vol. 109, no 459, pp. 598–633.
- Hildyard, N. 2012. 'More than Bricks and Mortar. Infrastructure as an Asset Class: Financing Development or Developing Finance? A Critical Look at Private Equity Infrastructure Funds', *The Corner House*, <http://www.thecornerhouse.org.uk/resource/more-bricks-and-mortar>.
- Jomo, K. and B. Fine (eds) 2006. *The New Development Economics: After the Washington Consensus*, Delhi: Tulika, and London: Zed Press.
- Kapur, D., J. Lewis and R. Webb 1997. *The World Bank: Its First Half Century. Volume 1: History*, Washington, DC: Brookings Institution Press.
- Kwakkenbos, J. 2012. 'Private Profit for Public Good? Can Investing in Private Companies Deliver for the Poor', *Eurodad*, <http://eurodad.org/wp-content/uploads/2012/05/Private-Profit-for-Public-Good.pdf>.
- Lall, S. 2004. 'Reinventing Industrial Strategy: The Role of Government Policy in Building Industrial Competitiveness', UNCTAD, G-24 Discussion Paper, no 28.
- Lin, J. 2003. 'Development Strategy, Viability and Economic Convergence', *Economic Development and Cultural Change*, vol. 53, no 2, pp. 277–308.
- Lin, J. 2009. *Economic Development and Transition: Thought, Strategy, and Viability*, New York: Cambridge University Press.
- Lin, J. 2012a. *New Structural Economics: A Framework for Rethinking Development and Policy*, Washington: World Bank, <http://siteresources.worldbank.org/DEC/Resources/84797-1104785060319/598886-1104951889260/NSE-Book.pdf>.
- Lin, J. 2012b. *Benti and Changwu: Dialogues on Methodology in Economics*, Beijing: Peking University Press, Kindle Edition.
- Lin, J. and H-J. Chang 2009. 'Should Industrial Policy in Developing Countries Conform to Comparative Advantage or Defy It? A Debate between Justin Lin and Ha-Joon Chang', *Development Policy Review*, vol. 27, no 5, pp. 483–502.
- Lin, J. and D. Rosenblatt 2012. 'Shifting Patterns of Economic Growth and Rethinking Development', *World Bank, Policy Research Working Paper 6040*.
- Mamdani, M. 2011. 'The Importance of Research in a University', <http://www.pambazuka.org/en/category/features/72782>.
- Peres, W. 2011. 'Industrial Policies in Latin America', *UNU-WIDER, Working Paper*, no 2011/48.
- Samoff, J. and C. Bidemi 2003. 'From Manpower Planning to the Knowledge Era: World Bank Policies on Higher Education in Africa', *UNESCO Forum Occasional Paper Series 2*, <http://unesdoc.unesco.org/images/0013/001347/134782eo.pdf>.
- Stiglitz, J. 1998 'More Instruments and Broader Goals: Moving toward the post-Washington Consensus', *Wider Annual Lecture*, Helsinki, 7 January, reprinted in H-J. Chang (ed) (2001) *Joseph Stiglitz and the World Bank: The Rebel Within*, London: Anthem Press.
- Van Waeyenberge, E. 2009. 'Selectivity at Work: Country Policy and Institutional Assessments at the World Bank', *European Journal of Development Research*, vol. 21, no 5, pp. 792–810.
- Van Waeyenberge, E. 2011. 'Understanding Aid at the Bank', in Bayliss *et al.* (2011).
- Van Waeyenberge, E. and B. Fine 2011. 'A Knowledge Bank?', in Bayliss *et al.* (2011).
- Van Waeyenberge, E., B. Fine and K. Bayliss 2011. 'The World Bank, Neo-Liberalism and Development Research', in Bayliss *et al.* (2011).
- Wade, R. 2010. 'After the Crisis: Industrial Policy and the Developmental State in Low-Income Countries', *Global Policy*, vol. 1, no 2, pp. 150–61.

- Wade, R. 2011. 'Why Justin Lin's Door-Opening Argument Matters for Development Economics', *Global Policy*, vol. 2, no 1, pp. 115–16.
- Wade, R. 2012. 'Return of Industrial Policy?', *International Review of Applied Economics*, vol. 26, no 2, pp. 223–39.
- Weiss, J. 2011. 'Industrial Policy in the Twenty-First Century', UNU-WIDER, Working Paper, no 2011/55.
- World Bank 1993. *The East Asian Miracle: Economic Growth and Public Policy*, New York: Oxford University Press for the World Bank.
- World Bank 2010. 'Transforming the Bank's Knowledge Agenda: A Framework for Action', Knowledge Strategy Group, Washington, DC.
- World Bank 2012. *Light Manufacturing in Africa. Targeted Policies to Enhance Private Investment and Create Jobs*, Washington, DC: World Bank.

Notes on contributors

Ben Fine is Professor of Economics at the School of Oriental and African Studies, University of London and Senior Research Fellow attached to the South African Research Chair in Social Change, University of Johannesburg. His recent books include as contributing editor, with K. Bayliss, *Privatization and Alternative Public Sector Reform in Sub-Saharan Africa: Delivering on Electricity and Water*, Basingstoke: Palgrave MacMillan, 2008; *The Elgar Companion to Marxist Economics*, edited with Alfredo Saad-Filho and Marco Boffo, 2012, *From Political Economy to Economics: Method, the Social and the Historical in the Evolution of Economic Theory*, awarded the 2009 Gunnar Myrdal Prize and *From Economics Imperialism to Freakonomics: The Shifting Boundaries Between Economics and Other Social Sciences*, awarded the 2009 Deutscher Prize, both with Dimitris Milonakis, 2009, Routledge; *Marx's Capital*, fifth edition, with Alfredo Saad-Filho, 2010, *Theories of Social Capital: Researchers Behaving Badly*, 2010; as contributing editor, with K. Bayliss and E. Van Waeyenberge, *The Political Economy of Development: The World Bank, Neoliberalism and Development Research*, 2011; and similarly with J. Saraswati and D. Tavasci, *Beyond the Developmental State: Industrial Policy into the 21st Century*, 2013, all with Pluto Press; and co-edited with Kyung-Sup Chang and Linda Weiss, *Developmental Politics in Transition: The Neoliberal Era and Beyond*, Routledge, 2013. He has served as advisor to trade unions, other progressive organizations and to international, national and local agencies and governments, and served as one of four international expert advisors on President Mandela's 1995/96 South African Labour Market Commission. He has published widely on the South African economy and its economic policy. He currently sits on the Social Science Research Committee of the UK's Food Standards Agency for which he chairs the Working Group on Reform of Slaughterhouse Controls.

Correspondence to: Ben Fine, Department of Economics, School of Oriental and African Studies, Russell Square, London, WC1H 0XG, UK; e-mail: bf@soas.ac.uk.

Elisa Van Waeyenberge is a lecturer in the Economics department at the School of Oriental and African Studies with research interests that include the international financial institutions, aid, and alternative macroeconomic strategies. Together with Kate Bayliss and Ben Fine, she edited *The Political Economy of Development. The World Bank, Neoliberalism and Development Research* (Pluto 2011).

Correspondence to: Dr Elisa Van Waeyenberge, Economics, School of Oriental and African Studies, Thornhaugh Street, Russell Square, London WC1H 0XG, UK; Email: ew23@soas.ac.uk.