

# Neoclassical Economics and Development

A critical review of the convergence hypothesis

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# Abstract

This paper aims to critically review scientific purports by neoclassical economics, in particular when it comes to international development politics. Strive for global unified economies conceptualized through the convergence theorem and its extensional implementation through Washington consensus is the main goal of liberal ideology. Moreover market friendly reforms and policies are promoted and practically imposed by transnational institution such as IMF and World Bank on the host countries. This paper adheres to the postmodern critical methodology since it aims to illustrate the prevalent epistemological structures and their shortages. Reviewing the convergence literature I find three overall perspectives that constitute layers of this vision. First of all is positive economics thus possibility of value-free knowledge acquisition through empirical accumulation and reductionism as well as rationalization. Second is the narrow definition of concept of development in a pure economic sense. Third is the flawed view that Washington consensus policies are the cause of convergence in international markets rather than its reason. Furthermore the ideological undertones represented by assumptions leaning toward individualism and market are downplayed in order to enhance the superior scientific aspect. Even if the ideological weight of assumptions is neglected, the trends neoclassical economics has generated are discussed in ideological terms especially by Marxist camp, for instance commodity fetishism. Therefore I find an ideological treatment of the issue is inevitable.

*Key words:* convergence, Washington consensus, development, postmodern critic, neoclassical economics, neo-liberalism,

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# 1 Introduction

Convergence thesis (also known as catch up effect) is a hypothesis within the liberal economic development theory that emphasizes the trend that all economies will eventually converge in terms of per capita income. According to this hypothesis convergence is not only inevitable in international economy but also an ultimate phase of economic development. This hypothesis also implicate that the “recipe” for economic development is unique, and its fundament is been incorporated by the American economy. In result all economies will eventually converge toward the American model.

The main explanation for emerging of convergence in world economics according to Hague and Harrop (2007:150) is globalization. On a more tangible level these explanations are; growth in international trade, cross-border investments, multinational corporations and trade promotional organizations as well as liberalizing asset and capital markets and European monetary union translated in a common currency, the Euro.

Belief in convergence thesis has also been practiced by international institutions such as International Monetary Fund and World Bank. These organizations that are creations of Bretton Woods’s system promote convergence friendly policies in developing countries. For example in exchange for beneficial long term loans, IMF requires some structural macroeconomic adjustments in the host country. These policies were summarized by John Williamson and coined pejoratively as Washington Consensus in 1989.

In this study I intend to critically review convergence policies in international development economy especially those promoted by intergovernmental institutions. Great emphasize lies upon distinguishing science from ideology in economics and their direct implication on practicing development policies in international politics.

There have been many critical voices on implanting structural adjustments programs by the international institutions, and even their evident failure in many cases has been shown both theoretically and empirically. The aim of this study is not conduct another one in the same path; but to show that considering economics as science may have vicious consequences. I think that this pattern is prevalent in all fields of economics today but since this trend is vibrant in the case of development economics, I chose this aspect. For example discussing the ongoing financial crisis in the west I find that the solutions presented by mainstream economists are basically within the same scientific approach. It is also important to clarify that my point of view is not to denounce the sanity of neoliberal/neoclassical models upon which scientific economics based. Instead I argue that the ideological weight of these models should be underlined clearly

especially in the textbooks. Second, these models are designed and theorized in a western context and any geographical/cultural reassigning should ensure reconsideration of the assumption.

## 1.1 Purpose and thesis question

The purpose of this essay is to contribute to the thoughts regarding how economics should be considered especially in a political context. The concepts of scientific and normative economy influence the way we understand and relate to politics, and what implications and consequences these assumptions and preconceptions this may convey.

Adhering to a critical standpoint, I find the raise of neoclassical macroeconomics part of the emerging international political order after the end of the cold war, in which the role of USA as the hegemonic power cemented (Clark, 2008:568). My critical view is rooted in the postmodern critical approach where marginalized voices are in focus. In other words the aim of postmodern approach is to question the prevalent paradigms and discourses in the society as well as academia (Alvesson & Deetz, 2000:17). My understanding is that there are no downright prescriptions when it comes to development economics and the liberal development theory is one among several other theories. This aspect should be underlined at any discussion regarding this matter. Any development theory is delineated by various economic assumptions and political contexts and attempts to export it should consider that carefully. However I distinguish that the economic trends after the end of the Cold War (which will be discussed further later on in the essay) has supplied the belief that market oriented economics is based on experience rather than ideology; thus market economics is more scientific than other approaches.

The question around which this essay is centered is to discuss possible implications generated from the scientific emphasis in thinking development within the convergence theorem. In order to discuss this question I try to critically review the underlying assumption upon which scientific economics and development theory are presumably founded.

## 2 Method

The aim of postmodern critical research methodology is according to Alvesson and Deetz (2000:20) to “*create opportunities for a wider discourse among group members as well as between social groups and the society they operate in*”. Accomplishment in this field can be obtained through elucidation of counterparts to the dominant paradigms in the society’s common perception. The authors also stress that postmodern research in fact comprises several methodologies which have the critical accent in common. However such research composed from three major but sometimes overlapping phases, namely insight, critic and transformative reevaluation.

The very first step in an individual’s knowledge acquisition is dominating social structures and valid social norms. As researcher one should be able to identify and analyze these structures in orders to attain a proper insight on the subject. Studying the historical, sociological and political context in which these structures were created is an appropriate foundation (Alvesson & Deetz, 2000:21). In the second step the attention is directed toward general social ideologies and orders and their local particular emergence. For instance how development economy is considered and practiced within a certain system (ibid). The criteria for development as well as material development alongside human development such as literacy and health should be theorized and analyzed outside the widespread theory. Focus in this case lies within the power and dominance structures that are reproduced by intergovernmental institutions. A critical reflection in these two steps constitutes the material for the next step, transformative reevaluation. Here the research deals with proposals to change the dominating paradigms, however it is important that the propositions are not in form of ideal types. Considering the complex interpersonal relations that causes the structures initially is crucial in constructing the alternatives. Or as Michel Foucault puts it “... *meaningful change occurs by micro practices in numerous situations where micro relations perpetrate*” (Alvesson & Deetz, 2000:23f).

The practical method of research in this essay is idea criticism in accordance with Ludvig Beckman’s argumentation. However there are several ways to conduct idea critic mainly because of assorted ways of conceptualization of what ideology may represent. An alternative is to not have any preconception about what ideology amounts to, but instead focus on the argumentation and reasoning within the presented material. Here the textual material is examined in detail by taking into consideration three ground pillars of idea critic, namely logical validity, empirical durability and normative plausibility (Beckman, 2007:56). The aim of examining the logical validity is to identify if there are prevalent contradictory statements. In addition the logical valid of conclusion deduced from this statements are also examined (Beckman, 2007:58). However this should be

within the presented textual substance rather than by external ideas. In other words the examination should be conducted intrinsically since only given hypothesis within the theory are subjected to the examination.

However as Beckman admits that idea critic should build around an initial more descriptive research method, hence my earlier explanation. In summary my research perspective is a postmodern critical such but idea criticism constitutes the practical overall disposition of the later part of analysis in this essay.

## 2.1 Material

The primary source of material used in this essay is Williamson's notion about the liberal development policies, namely Washington consensus. However the liberal theory and its economic counterpart, the neoclassical school as well as its assumptions are also subjected to the critique, thus also can be considered as material. The primary source of material regarding the neoclassical economics is original works mainly by Friedman and Hayek as well as university textbooks by Paul Krugman and Olivier Blanchard. However since the boundaries of liberal ideology and neoclassical economics are too complicated to determine; only the relevant hypothesis and assumption to the subject are considered. These considerations follow Stiglitz summarized list of Williamson's original concept.

The term Washington consensus was coined by John Williamson lead economist at Washington based think tank, *Institute for International Economics* in the late 1980s. He identified 10 policy requirements that were recommended by authorities and practically imposed on host countries. These principles are:

1. Fiscal discipline
2. Concentration of public expenditure on public goods including education, health, and infrastructure
3. Tax reform toward broadening the tax base with moderate marginal tax rates
4. Liberalizing interest rate toward market determination
5. A competitive exchange rate
6. Trade liberalization
7. Liberalization of Inward Foreign Direct Investment
8. Privatization of state enterprise
9. Deregulation specially regarding competition restriction
10. Legal security for property rights (Williamson, 1990)

Ever since Williamson introduced the term Washington Consensus there has been intensive debate about the nature of the term and its function. Many (including Joseph Stiglitz, former World Bank chief economist) have interpreted the term as an umbrella term for the neoliberal strive toward creating global markets and free

trade and limiting the central power. Stiglitz summarizes these 10 points in a simplified 3 points structure as following:

1. Macroeconomic stabilization
2. Price liberalization
3. Mass privatization (Stiglitz, 2004:2)

He also claims that these rules are established on *market fundamentalism* basis. Market fundamentalism is pivotal around concepts like *invisible hand of market* as well as *laissez-fair* which are also central in the neoliberal theory. The aim of these policies is to eliminate market inefficiencies caused by governmental interference in developing countries (ibid).

As I earlier argued market fundamentalism is an ideological view on the economy and the concept of development underpinned, even though the excessive employment of statistics and mathematical modeling that theorize behavior of the markets may appear scientific (Backhouse, 2010:99). These concepts as I will discuss further later on in this essay are based on reductionist ideological assumption, such as symmetrical information flow and disregard of market externalities.



## 3 Background

This section discusses the wider historical perspective of social science methodology in which economics came to be considered as value-free science.

### 3.1 Scientism

It has been argued by many economists in the world that economics as discipline is derived by experience not ideology (Backhouse, 2010:148). For instance Olivier Blanchard, IMF chief economist claims that:

...dominance [of a certain approach to economics] means a common language and common methods. It certainly does not imply a common ideology. In fact, economics today is characterized by its pragmatism. For most of us, markets often work well but sometimes they work badly. (Backhouse, 2010:146)

The accumulation of data by empirical observation of historical numbers enables scientists to develop statistical methods to understand, explain and even forecast economic incidents. For instance the endeavor of Econometric Society established in 1930 is to:

... promote studies that aim at a unification of the theoretical-quantitative and empirical-quantitative approach to economic problems and that are penetrated by constructive and rigorous thinking similar to that which has come to dominate in the natural sciences.<sup>1</sup>

Ludwig von Mises a leading figure within the Austrian school of economics argued that economics knowledge can in fact be a priori. Mises shared Kant's view on historicism and deduction as an epistemological approach. For Mises the empirical conformation of a theory in addition to its logical necessity constitutes a universal valid science of human action (Mises, 1960:6).

Even Jürgen Habermas the renowned German sociologist-philosopher observes an epistemological tendency in the west and academia in which heavy compilation relies on accumulated empirical knowledge. He uses the term scientism (note: the term has been used to indicate other slightly different phenomena) to denote this trend (Outhwaite, 2009:22). Habermas posits that a lot of emphasize in the development of human and social sciences in the western

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<sup>1</sup> <http://www.econometricsociety.org/society.asp#constitution>

world has been around positivist tradition represented roughly by culture of rationalization, reductionism and application of natural science.

Mikael Stenmark, philosophy professor at Uppsala University, asserts that scientism as epistemological approach has the ambition to expand its operation radius beyond natural sciences. He also traces a tougher position within the scientist tradition that canvasses for immensity of natural science. The underlying assumption for this position is that (natural) science can and will be the only approach to understand and explain any human exertion (Stenmark, 2003:783). This position can be compared to theories of historical development of human race implied by *idea of progress*. Idea of progress represents several essentially consequent theories that rejoice the role of technological growth and scientific accumulation in the western civilization. These theories also emphasize that human civilization is moving toward a particular forward direction. It is worthy here to recall the convergence theory presented in the beginning of this essay. The uniqueness of development process emphasized in that hypothesis as part of neoliberal economics reminds of idea of progress. The discussions regarding convergence generate the impression of extensionality of idea of progress. Still the concept of idea is generally controversial in the academia. Many have criticized the concept especially for its linearity as well as cultural and social inadequacies. A counterargument presented here is the *myth of progress* which is a critical version of the original concept. To illustrate the contradictions regarding this notion, Karl Poppers works are good examples. Although being a leading inspiration to neoliberal ideas he opposed the emergence idea of progress back in 1957 in his book *The Poverty of Historicism*. However his epistemological philosophy on possibility of objective knowledge acquisition through processes like critical rationalism, objective hermeneutic and axiomatization of probabilities remains core in neoliberal economics.

As mentioned earlier I believe the dominance of scientism in economics is perilous. The subject has been examined by philosophers of science most notably Alexander Rosenberg. In his work *Economics: Mathematical Politics or Science of Diminishing Returns?* (1992) he examines limits of economics as an academic discipline. To demonstrate the neoliberal economics dysfunction he cites Imre Lakatos's criterion of pseudoscientific research programs according to which the neoclassical economics as presented by Friedman is essentially a pseudoscience. In a case study published by Lakatos's colleague at LSE, Milton Friedman's epistemology and methodology was examined in detail and correspondently doomed to be unscientific. However Lakatos's methodology has also been criticized for being anarchistic and thus unscientific; most notably by Paul Feyerabend.

In this section I aimed to present chief ideas regarding contemplation of economic epistemology. As any other philosophical idea a very broad and contradictory conceptualization practices at this broad abstraction level exist. Studying these attitudes assists a deeper understanding of the neoliberal economic paradigm. Since the critique of neoliberal economics is merely a critique of economics as whole, a deeper review of such preludes is necessary. In other words I don't believe that neoliberals have the intention to monopolize the

knowledge in order to exclude other beneficial approaches. I would argue that this is asserted boldly in the neoliberal economics, since it builds around pragmatism and self-interest maximizing purposes. If there are other approaches that offer improved conditions given same circumstances it would be by definition according to the neoliberal assumptions the rational choice. However I think the progression of science in the western world has been in a direction that privileges the neoliberal economics since they share an identical methodology; hence its dominance. In order to further consolidate the idea I would like to mention Francis Fukuyama's notion on the subject. In his early works especially *The end of history and the last man* (1992) Fukuyama argues that liberal democracy and western capitalism will unanimously triumph the war of ideologies. This will also indicate compliment of humanity's progress toward fulfillment represented by the ultimate governance of liberalism. My interpretation of Fukuyama is that the triumph of liberal democracy is due to the natural progress in humankind's evolution, rather than uniqueness and superiority of the ideology by itself. In other words the natural human progress determines the market friendly ideology not the opposite. It is also worthy to note that Fukuyama uses liberalism in its Anglo-Saxon sense, thus leaning on a classic more conservative interpretation represented by the Republicans and neo-conservatism to which Fukuyama acknowledges adherence.

### 3.2 Emergence of value free economics

At the end of the Second World War there was a broad acceptance, at least outside the Soviet bloc, of mixed economy. Mixed economy implicates that both private and public sector should be involved the society's commercial chain. However boundaries between the private and the public remained a huge debate within the characterization of the mixed economy. During those years the attention of economist was to theorize governmental intervention to resolve market failures (Backhouse, 2010:106). However during the 1970s a new wave of ideas regarding government emerged. These ideas suggested that government due to its political nature cannot act altruistically. Politicians take action mostly in self-interested proposes thus making the government part of the problem. Anti-governmental winds came to influence the public opinion especially in the Anglo-Saxon world and many other fields began to embrace such ideas for example Ayn Rand's objectivism and her novel *Atlas Shrugged*. Many academics have tried to explain the resurrection of liberal ideas in the post war period but there is no actual consensus when it comes to answer. However a series of events might have inspired such rebirth, most notable failure of Keynesian economics triggered by Oil shock of 1973 and near collapse of British industry as well as failure of Bretton woods monetary system of fixed exchange rate (Jones, 2012:2). In the following years raise of neoliberal ideas deciphered practically as both Thatcher and Reagan assumed power in UK and United States respectively (however this denotes only the economic aspect of neoliberalism as both leaders were

conservative when it came to social and family issues). In wake of such environment a new wave of economist, most notable Friedrich von Hayek as well as his apprentice Chicago school's Milton Friedman launched a platform to put their theories into operation and conceive a new market oriented economics which is basically in accordance with neoliberal assumptions (Backhouse, 2010:140ff). However these economic ideas came to be labeled as monetarism, neoclassicism or even the Austrian school but the frequent umbrella term in the textbooks is *neoclassical economics*, which embraces the ground rule of neoliberalism and incorporated it into the existing discourse at the time namely the Keynesian economics in a process known as *the neoclassical synthesis* (ibid).

Jones (2012:39) claims that rise of neoliberal theories anchors in a decade earlier (1940s) academic tide known as the neoliberal critique. This tide represents a few issues that treated neoliberal ideas on a primitive level, for instance Karl Popper's "*The Open Society*" or Ludwig von Mises "*Bureaucracy*". In upcoming years many ground pillars of neoliberal economics were hypothesized and developed. For instance theories of homo economicus, the self-centered, utility maximizing being were resurrected. A political implication of these ideas was cherishing economic liberty as a coherent concept within political freedom, an idea that I trace back to enlightenment philosopher, John Locke. In order to comply with my argument I want to mention the affordable housing ownership plans for low incomers initiated by Reagan and Thatcher during their leadership in their countries (Jones, 2012:297). I think this demonstrates the weight of property ownership and how it is considered to be a great presumption to political rights and economic participation by neoliberals.

Rise of individualism as part of economic and political freedom theories lead also to flourishing of other theories within the same perspective such as the rational choice theory. The theory was applied in economics first by Gary Becker, lead economist in Chicago school, due to its emphasize of individualism as well as its potential to contradict Soviet's communism (Jones, 2012:120ff). Another vast implication of rational choice theory was development various game theories (Backhouse, 2010:145). One of most notable think tanks in USA involved with development of these game theories has been RAND Corporation. RAND was created by the US armed forces and its vision among other things was to create a scientific management of the economy (ibid). RAND enjoyed wide support from very influential sponsors such as Ford foundation and Heritage foundation in the power structure of United States. Ford foundation organized the academic foundation for insertion of those ideas by identifying five focus universities which they called "Centers of Excellence" (Backhouse, 2010:146).

## 4 Ideological Roots of Neoclassicism

In this section I discuss the ideological assumption underpinned the scientific economics that dominates economic thought. A major aspect of this section is the relation between these ideological connotation and their consequences on economics thought. The relation between neo-liberal development theory expressed throughout Washington consensus and the neoclassical economics is also analyzed in the following section. Furthermore the analytical framework namely idea criticism takes place directly following the arguments. Focusing on the three pillars of idea critic in accordance with Beckman's reasoning, the validity, durability and plausibility of neoliberal economics in a development context are examined.

### 4.1 How markets work

As Bresser-Pereira (2010) argues the “*neoclassical economics plays the role of meta-ideology as it legitimizes, mathematically and “scientifically” the neoliberal ideology*”. He also summarizes the assumption upon which the neoliberal politics are centered in three ideas; free market, deregulation and limited government. However on an extensional level the most recurrent concept in neoliberal economics is Adam Smith's concept of invisible hand of market. Belief in the market as the sole arena for commercial interaction in the society is foundation of neoliberal theory. In addition the market is constantly self-regulated and doesn't need an external factor to function well (Woods, 2008:249). In other words the invisible hand of free market ensures the most efficient allocation of resources and services in a society. Even though there has been severe uncertainty about Smith's real intention with the concept of invisible hand in his numerous works, the concept has interpreted and generalized in a way to fulfill the neoliberal purpose; for example Friedman's article *Adam Smith's relevance for today* in 1977. In order to markets function as planned there are some assumption and conditions to be met. One of the most crucial assumptions is rationality of participating actors. This also means actors act only in utility maximizing purposes. This concept is theorized and studied in so called rational choice theory, which tries to empirically model and predict human behavior (Hill & Myatt, 2010:9). For instance human behavior in the market is monitored in order to find logical orders.

Even though the invisible hand of market is the central tenet of neoliberal theory but it seems to me that less emphasis has been put to prove the theory empirically. However attempts have been made to comprehend behavior of

masses. A nearly tied academic field that study massive random actions in order to find intelligible categories is the multidisciplinary approach of chaos research. One of the oldest and most known is Francis Galton's attempt in 1907. In his experiment he asked more than 700 villagers to guess weight of an ox. Nevertheless none of them guessed the right weight but their joint average value of guesses was the nearest estimate to the actual weight of the ox. Many have tried to theorize similar efforts to show the rationality of the market in creating the best possible distribution, among other works are Surowiecki's *The Wisdom of the Crowds* as well as Taleb's *The Black Swan*. However these attempts are not pure economic studies and involves many other aspect most notably group psychology and sociology.

However as earlier mentioned in order to market function as predicted i.e. rational few preconditions must be fulfilled. These will be critically reviewed, analyzed and discussed in relation to the development theory endorsed by Washington consensus in the following sections. In addition Stiglitz three categories will outline the analysis.

## 4.2 Macroeconomic stabilization

One of main step of development according to Washington consensus is macroeconomics stabilization. The process implies the transition from centrally planned economy to market oriented such. Beside the ideological tone of this idea I find reliance on the market without any governmental intervention somehow dangerous. For instance a contradictory issue in the argument is the negative externalities caused by the rational actor. Many policies advocated by the Washington consensus such as currency, interest rate and market deregulation (number 4, 5 and 9 above) are toward market determination. As earlier argued in order to market allocate the best distribution the rationality of participating actors is required. However the rational actor will act upon his own interest thus considering the negative externality caused by his action will cost him both money and leisure time (Hill & Myatt, 2010:150). On the other hand losses of the collective due to negative externalities should somehow be covered but the neoliberal assumption limits the collective represented by the government to intervene especially when it comes to taxation. I think this creates a paradox in the theory. Limiting the government will create power vacuum and negative externalities eventually overshadow individual's utility and everyone is worse off. This contradicts with the definition of rationality as it is the maximizing utility action. This outline of the issue is also discussed in moral philosophy under the principle of rational egoism. An extensional critique here is in a society where no one recycles is everyone worse off. As result an external part such as government or municipality with democratic authority enabled to enforce some ground rules is needed to serve everyone's interest.

I also find the assumption of self-centered individuals may be interpreted contrarily depending on the overall perspective. It underlies the individual to act

pragmatic rather than by ideological incentives. And since I consider the assumptions of neoclassical school as altered by ideological reasons then patterns of human behavior as presented are also ideological and therefore not natural nor pragmatic. Avoiding the ideological presence and relying on scientific methodology that legitimizes such reductionist view of human behavior doesn't change the ideological nature of the question. In addition I find the ideological terminology, most significantly depreciation of normative language such as should-phrases which is common in normative contexts, extremely absent. This may cause stirring the ideological tones to lower layers (read hidden) of argumentation. This can be understood by retrieving the positivist methodology of economics as a counterpart to the normative one introduced by among others Friedman.

Another issue that I find contradictory in anti-regulation argument is the existence of unequal actors in term of size in the market. Trough capital accumulation and better conditions will larger actors in the market seek monopoly position. Seeking monopoly position in the market would be the rational choice since it maximizes the self-centered actor's utility. In other words by the very definition neo-liberalism the actors in the market will seek monopoly thus markets tend to be inefficient. However the assumptions of the theory suggest that markets are self-regulated and efficiently distribute the resources. However non-altruistic actors constantly seek the inefficient alternative to maximize their own interest. Moreover implementing such (anti regulation) policies in development countries will advantage well-established, experienced corporation in developing countries to expand their operation into the new markets. This leads to a growth in the unequal condition preexisted and thus not the rational alternative for the host country. Even though intake of foreign investments benefit the economic cycle initially but in the long run indifference toward outflow of capital by foreign corporation as required above (number 7) is not the rational choice.

Perfect competition in the market is also an implicit assumption in neoclassical models. This suggests that operations in the market are not biased toward a certain actor (Backhouse, 2010:25). This includes assuming absence of corruption, asymmetrical access to the operations and geographical boundaries in addition to no substantial differences in extent of operations among the actors. For instance the market should not constitute from relatively large actors who have the ability to influence the whole market by its operation. Large actors such as corporations or government may influence the operation through information monopoly or amount of resources that compromises large overall ratio of market. For example in order to pay the European Union's membership fee in the European currency, the Swedish central bank announces the exact amount of money it intends to change in the currency market in advance. The main reason for this is to eliminate the false impression of increased demand in the market.

### 4.3 Price liberalization

Liberalism inherited optimism of markets power and individuals rationality which backs it up, has been criticized most notably by John M, Keynes. Keynes believed that the market is subjected to wider economic cycles. He also emphasized the complication of human behavior by arguing that it is characterized by “animal spirit”. This means human behavior is directly prompted by arbitrary optimism and skepticism influenced by emotions and instincts such as greed, anger, and love (Keynes, 1936). In other word Keynes denounces the rationality of human being by referring to his emotion and instincts as foundation of decision making. Even though being a very influential figure for macroeconomics part of neoclassical school (as well as other heterodox schools of economics), Keynes argument remains merely neglected issue in neoclassical economics. I think the argument undermines the human rationality and correspondently the price setting mechanisms of thee market in the determination of most fair price distribution.

However the price setting mechanisms of the market relies on several assumptions most significantly, access to the information required to make a decision. I consider this assumption as the most important condition, since having a good insight in the matter is crucial in being rational and make reasonable decisions. However I think this criterion is difficult to attain in real life. Information is open to interpretation by individuals or even altered by external factors such as advertisement. Even most important in the last decades the media ownership trend in the west has been toward centralization into corporations and cost efficiency (my note: read minimization). It underlies the neo-liberalism that corporation act toward profit maximization. In the media industry this has been translated among other things into monopolization and cutting back on long distance reporting. In other worlds a company owns several newspapers or alternatively uses established news agencies for its daily news reporting. This has turned the news sources market into an oligarchy where only some previously established actors have the ability to survive for instance Thompson Reuters or Associated Press. In other words a consequence of neoliberal politic in this field has been paradoxical as alternative news sources are suffocated and the market in this case is far from free but actually relatively limited. This also leads to decrease in competition or even freedom of choice contrary to what the ideology advocates.

At the moment I am writing this essay, hacking of Associated Presses Twitter account and publishing false news on president Obama’s injury in an explosion in the white house lead to major dive in American stock markets (Moore & Roberts, 2013). I think this illustrates how liable the market is to information, and correspondently its vulnerability to uneven and false information flow. Human act upon it’s reasonably judgment but what about such news reliability and risks for false such. The need for impartial is obvious and. The main question I think is whether perfect information flow is practically possible.

In addition rational choice is highly dependent on the information available. Therefore accessible flow of information in the society is a requirement. However the neoclassical models assume that this requirement unanimously exists (Stiglitz,



2002). This is assumed to be exogenous to the model, thus determined externally to the model. In other words actors are well informed and base their judgment on accessible, impartial information that is available for everyone at no additional cost. Expecting the perfect information flow in developing countries when it barely works in the west is another shortage of neo-liberal development theory. Discussing information in countries with decades of ruler's corruption and population's illiteracy is complex. In other word I think discussing human and social capital through education is a prerequisite to development process.

## 4.4 Mass privatization

Another fundamental issue significant in the assumptions can be understood by the individual versus society polarity. The interaction between the individual and the society he lives in is a political and ideological dilemma. As argued earlier the assumptions above emphasize a high grade of individualism. Even Stephen Marglin, leading economist at Harvard University, points out that reading mainstream economics textbooks makes the community invisible to economist's eye (Hill & Myatt, 2012:17). Taking a stand regarding the issue is deeply rooted in the ideological persuasion; for instance supporting the individual over the community is associated with the right-wing ideologies and vice versa. For instance in the hypothesis use of glorifying terminology such as being selfish is rational as it will benefit the society (through market efficiency assumption) is vibrant. This vocabulary imposes a set of values promoting egocentrism as norm and deviating voices as irrational. The arguments can be expanded to a development context where free trade is considered to be the rational choice thus expanding market is encouraged. However these free trade agreements create losers and winners since the counterparts are unequal initially. Failure to comply with wider social perspective may cause ignorance of systematic negative consequences such as poverty or pollution in certain geographical areas (Hill & Myatt, 2012:18f).

Another ideological bias identified by John Galbraith is focus on the individual rather than corporation as the main agent of economic activity in the society. By pursuing that, economists successfully alter the focus from corporations and their power in economic and political contexts to individuals (ibid). Galbraith's assertion is this helps economist deny the importance of power and political interests; and thus maintain their scientific appearance.

Another recurrent topic in neoclassical economics is modeling of marginal effects to existing models. This means that limits of a theory is studied in order to find consequences of maximizing or alternatively minimizing a desirable variable. It also enables economists to predict the future or the ultimate outcome of the models. Use of advances econometrical and statistical is common as the second and third derivations of data are calculated. Myatt & Hill (2010:169) find these models especially the marginal productivity theory of income distribution, as one

of most ideological contested models as “... *it downplays the importance of equity in the society*”. The model treats contentious issues such as income distribution and labor market that have ideological connotations. It also influences the way of thinking about wage and taxation in the labor market in order to create a just society if wished. When it comes to taxation the policies promoted are toward broadening the tax base with moderate marginal tax rates. This policy benefits the rich people in the society since the taxing pattern on additional income is exponential. The same pattern can be observed in a global context through so called Pareto efficiency. The concept denotes the ultimate set of distribution that maximizes society’s utility or the world in this case.

Another normative question when it comes endorsing the massive privatizing governmental enterprises is taxation in order to create a just society. For instance liberals prefer tax credits over social benefits when handling the taxation but how this affects the lower classes in the society. The dilemma as denoted by Hill & Myatt (2012:196) as the cost of justice is essential in balancing the individual versus collective’s part of politics. The standard argument by neoliberals is that taxation and correspondently equity in the society is an inefficient trade-off. However some empirical studies on the subject prove that health and life inequalities caused by wider social and economic inequality (ibid). I believe that these issues cause the inequalities in developing countries initially. But since there is strong bias in the liberal theory against governmental redistribution through taxation the collective’s ability to create a just society as needed in underdeveloped countries is omitted.

## 5 Discussion

Reviewing the convergence literature I find three overall perspectives that constitute layers of this vision. First of all is positive economics thus possibility of value-free knowledge acquisition through empirical accumulation and reductionism as well as rationalization. Second is the narrow definition of concept of development in the pure economic senses. Third is the flawed view that Washington consensus policies are the cause of convergence in international markets rather than its reason.

### 5.1 Value-free economics

As Skinner (1976:4) asserts “... *the fundament to any logic of industrialism is the assumption that industrial societies necessitate specific social and economic forms as a prerequisite to their functioning*”. However later on, he presumes that only “*excluding ideology as a significant mediating variable*” will result in such trend, namely adapting common social and economics norms. Furthermore he imputes convergence ambitions to both the communist and liberal ideologies (naturally toward different directions) as his work is from the cold war era. However the collapse of Soviet Union led to failure of Marxist camp and its convergence practically non-existent. Nevertheless I find avoiding the role of ideology in the argument a major loophole. As I earlier showed ideological nature of assumption underpinned the liberal development theory let alone the wider scientist perspective that enacts systematic rationalization and reductionism of human and social behavior can hardly be ignored. I consider commitment to rationalization as a superior epistemological approach especially when it comes to social sciences a flaw in the argument. Moreover the inflexible conceptualization of rationality in pure economic terms constitutes an ethnographical dilemma as nations and individuals may have contradictory goal-orientation. What constitutes the criteria of development may vary depending on the cultural and sociological background.

I have always been fascinated by the climate change debate in the American politics. The conservative forces represented by the Republican Party tend to undermine the claims by scientist that excess in human activity has an impact on the climate, thus no dramatic actions required to stop this trend. However the liberal forces claim the opposite and mean that a change in the American excessive way of life is necessary to stop the global warming. Nevertheless the outcome of the debate, I find questioning the scientific authority within a political

debate interesting and somehow related to my subject. Even considering economy as a scientific matter in politics requires some critical reflections as we witness in the climate change debate in the US. In the matter of fact I don't find any explanation for absence of this critical reflection despite the deep financial crisis in the world.

Matters of ideological judgment calls remain recurrent in economic decision making process, for instance an efficient market that benefits the already rich multinational corporations or an inefficient one that benefits the local villagers. A proponent of neoclassical economics may argue that this is a political rather than economic problem as economists provide the instrument to make this judgment calls. But as I argue here the scientific basis of mainstream economics today is imbedded with an ideology that glorifies certain underlying agenda which eventually benefits a narrow social class.

Despite its contested conceptualization globalization is a common argument for the convergence thesis. In many ways globalization is considered a progressive phase of modernization process, conceptualized as the modernization theory (Guillen, 2001). Modernization theory is derived from the idea of progress which as earlier argued underlines the unique intellectual development stages of human race. Many academics and in particular sociologists address series of problems regarding modernization; most significantly rationalization. George Ritzer, American sociologists, characterizes the social rationalization in four components, namely efficiency, calculability, predictability and control or as he summarizes it, "*McDonaldization*" (Ritzer, 2008). The practices of rationalization in addition to other components reminds of the economic assumption discussed earlier. Concepts such as standardization, quantity before quality and quantitative instead of subjective variables are also expressed in the neoclassical assumptions. These trends have been subjected to harsh criticism especially by the Marxist philosophy. Karl Marx writing the *Das Capital* as a reaction to Adam Smith first published in 1867 contemplates this idea and concludes that market naturalization is an excuse to normalize the capitalist agenda in the society. Today the critical and Marxist philosophy accuses the dominant economic ideology for among other things commercialization, consumerism and "commodity fetishism". My conclusion is since the consequences of this economic politics are discussed in term of ideological polarity then the problem itself can also be understood as an ideological dilemma. Once again I think avoiding the ideological perspective of this issue is impossible even if the neoclassical assumptions were not ideological in nature. In other words the rationalization trend to which economic as a discipline seem to adhere, has produced some epistemological tension, which is hard to discuss outside the common ideological framework. Furthermore I consider globalization the reason rather than the cause of convergence in global economy. Determination toward convergence especially by the developed countries and through the international mechanisms can be compared to a self-fulfilling prophecy.

I also think Freidman's statements on positive economics offer a perspicuous depiction of the dispute on the scientific nature of economics. This dispute can be perceived from a broader positivist-hermeneutic epistemological polarization.

Attempts to create solid numerical economic knowledge based solely on historical accumulated numbers are understandable from a positivistic perspective. However this attempts results in a generalization and reductions in order to express problems in mathematical equation. This increases correspondently the risk for oversimplification and overlooking some crucial detail specially when to comes to human behavior.

## 5.2 Development

I trace the convergence hypothesis to the Scottish enlightenments idea of economics development theory where the phases of nation's development are circular, homogenous and predetermined. But from the postmodern critical perspective the very concept of development can be problematized since it constitutes a way of thinking about the world (certain ontology). This also can be said to follow a construction of mind instead of reflecting the "real" world. Since the neoliberal definition of development contains a predetermined set of ideas it falls within the inclusion/exclusion dilemma and thus according to Foucault's discourse analysis, exercising power. This perspective also holds that the aim of convergence theory is to not only exercise of power toward non-western countries but also to institutionalize the definitional power of west (Rakowsky, 2003:268). The latter legitimizes the diffusing of some ideas through glorified terminology such as globalization, age of information and global village. As earlier mentioned the aim of neoliberal development is to allocate the most efficient set of scarcest resources mainly through the market mechanisms. According to this model rationality of individuals allow them to maximize their utility and benefit the society as whole. Even if market friendly policies imposed by transnational institutions backed by the United States succeed in a short term, but on the long run effects of external issues such as corruption or religious devotion should be accounted for. In addition some prerequisites such as accumulation of human and social capital through education should be covered prior to the development process. From a postcolonial perspective development policies may perpetuate colonialism and western discourse and power relations (Briggs & Sharp, 2006). The key criticism therefore lies within the latitude of reproduction of the power structures especially when it comes to traditional colonial powers.

Another modern approach to the discourse of development is human development theory. The theory is initiated by Amartya Sen who argues that economic growth, industrialization and technological progress even though being essential, are not the mean of development (Sen, 1999). He interprets the development as a process of expanding the real freedoms that people cherish. In that sense an economic aspect is only a mean of fulfillment, rather than purpose of development. In other words material wealth only facilitates achievement of real freedoms. Real freedom is key concept in Sen's argument as it constitutes immaterial concepts such as civil rights, education, health, elimination of poverty

as well as social deprivation. I think considering Sen's or any other immaterial value is nearly impossible for neoliberals. Operationalizing the rationality principle in the liberal theory is purely economics, for instance valuing elimination of poverty especially when it doesn't concern the individual personally is not encouraged. This is also significant when it comes to natural resources as the theory favors economic growth over pollution and other ecological concerns. I also find these immaterial factors essential ground for launching the economic development even in its liberal sense. As earlier argued some of these assist the market to function as intended. Education and health care that allows individual act "rationally" are crucial prior to the implementing market friendly policies.

Neoclassical especially Friedman's notion on political freedom and liberty nearly tied to economic power can be problematized. In addition to its ideological connotation, economic power's relation to wider political discourse as its emphasized is far away from unproblematic (Ashford, 2010). According to Friedman the concentration of power is the greatest threat to freedom and the risk of this threat is most significant when the state rather than private actors is involved. Diffusing the economics power (and thus political) is one of main functions of market (Friedman, 2002[1982]). However the empirical studies show that concentration of economic power especially in the United States (as it represents the converging point) is relatively high. The limited capital ownership shows that approximately 1% of population own 50% of wealth (Ashford, 2010:538). An implication of Friedman's belief is that a vast majority of American people are technically not free. I think a widespread wealth distribution can also indicate the political freedom as it increases the probability and ability to participate in the decision making process. The great emphasis on the ownership in addition to overlooking the equal wealth distribution demonstrates the ideological nature of this scientific model.

### 5.3 Convergence

A very essential instrument to accomplish global governance under the umbrella of liberalism is globalization. Even though the term has been use in different senses depending on the context but such tendencies in the world politics offers an excellent opportunity for diffusing knowledge and technology to drive de-territorial economic growth. As earlier mentioned factors like multinational corporations and international financial institution and markets are essential in rise of neoliberalism. In other words diffusion of these factors through globalization offers developing countries a shortcut to converge (catch up). However I believe the very concept of globalization is problematic and unequal in nature. As many have pointed out the integration of world politics through a series of sovereignty contesting policies in the recent decades have had some negative consequences especially in developing countries, among others rapid urbanization and creations of slums, environmental pollution and social conflicts. They also note that there

are losers and winners in globalization as countries have different premises to exercise influence in the global arena (see: Stiglitz (2002), Clark (2008)).

From an empirical perspective the gap between developed and developing countries widened despite prior claims of convergence Stiglitz (2002). Involvement of liberal intergovernmental institutions and nongovernmental actors seem to worsen the situation in host countries. I think this can be understood from the very assumption of liberalism. Since actors act in accordance with their own interest maximizing purposes, then there are no reasons for a corporation to sacrifice their own interest in order to promote a certain value. For instance it has been detected that some infrastructural constructions in Africa financed by the World Bank or similar institutions are actually promoted by construction companies in the West rather than the actual need in the country (Rothstein, 2005). I find corruption nearly tied with assumption of neoliberal economics specially the self-centered ego, thus benevolent interactions are quite detour in the context.

Another aspect of empirical perception of convergence is diffusing of consumer culture dominated in the west. As Agnew and Corbridge (1995:167) notice “*a new de-territorialised geo-political order—the hegemony of transnational liberalism—was emerging*” while noting “*a new ideology of market being embedded in and reproduced by a powerful constituency of liberal states, international institutions, and what might be called circuits of capital themselves*”. In other words the convergence process is not only summarized in the economic sense, but also ranging cultural and social aspects as well. Even Joseph Nye notices many aspects of globalization are pivotal around American values most notably, activities around areas like Wall Street, Hollywood and Silicon Valley and they constitute the American soft power in international politics (Nye, 2002:79). Nye acknowledges USA exercises power through these highly cultural factors except Wall Street. However I don't imply that globalization is equivalent with Americanization as its conceptualization is more complex. But my standpoint is that USA as the world's leading economy translated into the role of hegemony in international arena has broader premises to influence and power exercise.

The liberal economics relies on a utilitarian ethical standpoint (Weinstein, 2007). This means that aim of the liberal philosophy is the greatest amount of good for the greatest number possible (my note: the amount of devotion of liberals toward utilitarianism is contested). However this has turned out to be a greater benefit for rich and less for weak countries in the context of development politics. Globalization has smoothed march of corporations into new fronts as weak states subordinated by strict regulation to follow the trend. For instance developing country decides to converge into the neoliberal model. Like any undeveloped country, they have a huge amount of unskilled labor as well as unexplored natural resources. They have neither the expertise nor the capital to explore the natural resources. They are forced either to attract direct foreign investment or ask IMF or World Bank for loans. Still they lack technology to develop these resources. Accepting the transnational loan and exposing the market to foreign investors will result in first, exploitation of natural resources and its trade in unprocessed form.

Secondly it will lead to inflow of investments in labor intensive sectors, which denotes the factories that require highly physical labor such as manufacturing. Many corporations choose to move their production plants to these countries as cheap labor force in addition to minimum regulation regarding health and safety is tempting. Even if the neoliberal assumptions work out and the growth is achieved, such trend seems to benefit the host country less. The obtained growth in exchange for compromised factors is questionable. The statistics may show signs of growth in terms of increase in GDP per capita but the host country compromises much more due to its submission. In addition to political aspects, since the model ignores the role of externalities, the extraction of mines or other natural resources causes serious environmental issues which is to the contrary of the concept of sustainable development. Exploitation of cheap labor and ignoring their basic rights also results in violation of human rights and decrease in human development index.

Rodriguez (2011:22) identifies several factors in development countries that may disrupt operation of the market as in the west. First of all Rodriguez points the concept of path dependence out. The concept means that the future decisions are limited by those made in the past. This eliminated the role of drastic revolutionizing means of production. The decisions made in the past are also conditioned by a certain economic, social and cultural structures. In this case a rapid transition to a capital model is not possible since structural change occur only in a limited sense. In addition to that the IMF/World Bank experts without any prior knowledge of historical contexts tried to impose some policies that were successful in the west but not necessarily in those designated areas.

The second factor Rodriguez mentions is the role of public sector. Rushed abolition of public sector through privatization waves caused some problems. The public sector for example in former Soviet allies was the dominant source of the expenditure in the economy. Yet lack of legal and political frameworks to prepare such transition was evident as during 10 years some countries went to raise share of private enterprises from almost null to 60% (ibid). Stiglitz (2004:2) argues that there no theoretical evidences of market efficiency during early stages of implementing development models. I think one of the reasons that international development institution deliberated such measures through shock therapy was their ambition to achieve efficient market as soon as possible. A slow process where every step was subjected to political debate and social acceptance would take long time. During this initiating phase the inefficient market would not function well or even collapse. I think this proves that there is no scientific formula for development especially in the early stages of transition. For example the rapid transition most significant privatization in Russia led to rise of oligarchs that compromise the democratic progression in the country.

Arguing for convergence in international politics reminds of the concept of capitalism realism coined by Mark Fisher in his book *Capitalist Realism: Is There No Alternative?*. Fisher argues that the dominance of market friendly ideology has lead to a common belief that capitalism is the sole way to conduct politics. Moreover he asserts that despite all criticism and protests around the world, the capitalist ideology has managed to overcome the public opinion. Even some of the



earlier mentioned American enterprises such as Hollywood or even Silicon Valley are the foremost critics of capitalism themselves. As Fisher puts it “*the critique ironically enough feed rather than challenges the capitalist realism*” (Fisher, 2009:12). Slavoj Zizek argues that the capitalist ideology relies on the concept of disavowal thus people tend to believe in non-intrinsic value of money but to the contrary act if there was. The idea is academically elaborated by psychologist and is known as cognitive dissonance. In summary even if the critique against market economics is vocal people and in the case of development economics, countries remain faithful to the very fundament of market capitalism. Finally I would like to sum up this paper by a citation from Slavoj Zizek:

... today's society must appear post-ideological: the prevailing ideology is that of cynicism; people no longer believe in ideological truth; they do not take ideological propositions seriously. The fundamental level of ideology, however, is not of an illusion masking the real state of things but that of an (unconscious) fantasy structuring our social reality itself. And at this level, we are of course far from being a post-ideological society. Cynical distance is just one way ... to blind ourselves to the structural power of ideological fantasy: even if we do not take things seriously, even if we keep an ironical distance, we are still doing them. (Fisher, 2009:13)

## 6 Conclusion

The scientific approach of economics and its liberal discourse follows the prevalent overall epistemological paradigm. It also attempts to reduce the knowledge acquisition process to the common natural scientific one. The tenet of positive science is to model all human behavior in order to find patterns through mechanisms characterized by reductionism and rationalization. Furthermore some vital aspect of social sciences such as ideological structures are purported to be trivial. To the contrary I find these ideological underlines present on different layers of the theory and methodology.

The reason for analysis of neoclassical economics and its ideological assumptions is its attempt to legitimize a set of value judgments. Nevertheless the attitude regarding the liberal ideology it is essential to be aware of the ideological underlines of the reasoning. Issues like favoring individual over the society and limited size of governmental operation in commercial interaction despite their ideological connotation are predetermined in neoclassical models. In addition I find the neoliberal undertones in the neoclassical economics difficult to neglect as they also compose a major political aspect in the theory. Furthermore this approach fulfills an aspiration namely the idea of progress and its constricted view on the phases of human development. I find the great emphasis on rationalization and reductionism a major drawback, especially since the prevalent structures in the society as well as the ascendancy of some, compose epistemological obstacles.

From a wider perspective the neoclassical economics legitimizes recent trends in international political economy most significant globalization. Through its claim of superior epistemological approach the neoclassical model aims to glorify globalization as the main diffusing mechanism of American model. Yet globalization may have both positive and negative effects. I don't neglect the positive effects of globalization as it for instance enables larger population of earth benefit from technological growth. However it is important to assess issues regarding globalization beyond the rose-tinted glasses of liberals.

Another vast implication of scientific approach to economics is its inflexibility in development issues. Based on the belief in unanimous convergence toward the American model a set of policies were encouraged and imposed on developing countries. These policies known as Washington consensus didn't deem the sociological and ethnographical deviation in those designated areas due to its reductionist approach.

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