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### *Locating the normative within economic science: towards the analysis of hidden discourses of democracy in international politics*

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# **Locating the normative within economic science: towards the analysis of hidden discourses of democracy in international politics**

**By Milja Kurki**

## **Introduction**

Surrounding the science of economics is an aura of scientific authority that many other social sciences lack. Indeed, economic science is generally perceived as the closest

approximation to ‘pure’ and ‘exact’ sciences among the social sciences. It is conceived as such not only because it produces seemingly precise mathematical models with predictive capabilities, but also because it consistently seeks to apply a systematic approach to the study of the subject matter, an approach often referred to as ‘the scientific method’.

Economic scientists seek to fulfil the ideals of scientific analysis by applying two principal epistemological approaches: a rational deductive form of analysis (common in formal and mathematical economic theory) and empirical observation and testing (common in economic science focused on testing models) (MacCloskey 2002). Through these methods, and through bringing them together, economic science aims to produce scientifically valid and ‘objective’ models and predictions of economic phenomena (Friedman 1953; Lipsey 1989).

Whatever the advantages of these scientific aspirations, there is a discernible downside to the ‘scientific’ ideals of economics. Because of their focus on exact and objective scientific modelling, economic scientists have been distinctly uncomfortable when dealing with problems of a ‘fuzzy’ in nature, that is, matters difficult to (mathematically) define, measure, or quantify. Foremost among such matters are problems of ‘normative’ nature, questions pertaining to what ‘ought to be’ or evaluations concerning what counts as a ‘good person’ or a ‘good society’. Many economic scientists have, because of the aspiration to scientific objectivity, sought to avoid deciding on ethical questions of right or wrong and making judgements over what constitutes ‘the good life’ (MacCloskey 2006; Myrdal 1953). In Lipsey’s words: ‘[e]conomic theory cannot...ever show us what

we ought to do, but only what will happen if we do certain things' (Lipsey 1989: xvii).

Economic science is often perceived as, for want of a better word, a 'technical' science.

One consequence of the avoidance of normative questions in economics is that economic thought and theory has become dissociated in important respects from research conducted on 'fuzzier' matters among social scientists, matters involving by necessity a measure of normative as well as analytic assessment. One inevitably 'fuzzy' yet topical and important issue area among social and political scientists has been the analysis of democracy, and associated research agendas in comparative politics and international relations on democratisation and democracy promotion. The study of the fortunes of democracy has been an unsurprisingly popular research theme in the social sciences given the successive waves of democratisation that have characterised the 20<sup>th</sup> and 21<sup>st</sup> centuries, and the rise to almost unquestioned stature of the idea of democracy during the last decades (Sen 1999; Huntington 1993). Yet, these agendas are also uncomfortably 'fuzzy' in nature, primarily because democracy as a concept is deeply contested in its meaning: the core values of democracy and conceptions of its institutional workings are contested among political theorists, political scientists and, indeed, different political actors (Whitehead 2002; Kurki forthcoming). Various models of democracy, from liberal democratic to participatory, from social democratic to deliberative, from Confucian to Islamic, present themselves as possible normative ideals – as well as as criteria of measurement – in the study of democratic dynamics (Held 1996; Shapiro 2003; Sadiki 2004). Crucially, research on democracy, democratisation, or indeed democracy promotion inevitably involves taking a stance on the normative question: 'what

constitutes an ideal democratic polity?’ (Held 1996). This is because analytical judgements on the fortunes of democracy are also inevitably underpinned by one or another ‘normative’ vision of democracy.

Taking such fuzziness into account is a tricky matter for an objectivity-seeking ‘scientific’ economic scientist to tackle, for making judgments upon normative questions entails engaging in a form of reasoning that seems to fall outside of the confines of his or her usual remit. Since economic analysts have been uncomfortable with normative questions, when they have dabbled in matters democratic – and a few brave economists have –, they have predominantly sought to contribute by augmenting the efforts of a number of equally scientifically-minded political scientists, who have aimed to understand the quantifiable impact that particular ‘economic variables’, such as level of wealth or income, have on democracy (defined as a ‘measurable’ variable) (see e.g. Barro 1996, 1999; Bollen and Jackman 1985). Alternatively, they have explored the uses of formal rational choice models in tracing how economic rationalities interact with decision-making priorities and logics within democracies (Acemoglu and Robinson 2006; Przeworski 1990). These efforts have made a valuable contribution to the ongoing debate among some political scientists and sociologists on the impact of socio-economic development on levels of democracy and the prospects of democratisation (Lipset, 1960; Robinson, 2006; Bollen and Jackman, 1985; Haggard and Kaufman, 1995). Yet, through the application of the scientific method and the strict categorisation of criteria for what constitutes a democratic system, these economic scientists have sought to sidestep the

problem of normative contestation over the idea of democracy. It follows that their contribution to the study of democratisation has been rather narrowly confined.

Yet, it is by no means clear that economists have little to contribute to the study of democracy, and nothing to say on the normative questions surrounding debates on democracy. Indeed, it is the aim of this article to seek a rekindling of the study of democracy and economic science perspectives. I want to take steps towards a clearer understanding of the ways in which ‘hidden’ normative assumptions about democracy can be embedded in economic science.

Some perceptive critics of mainstream economics have already noted that normative assumptions do play a key role in economic analysis, even when it pretends to be value-neutral (Myrdal 1953, 1970; McCloskey 2008). This study is motivated by and supports such insights. Yet, it also seeks to go further by aiming to elucidate specifically the role of assumptions that are made about democracy in economic science. I ask whether, despite the influence of value-neutral discourse, normative theories of democracy can be seen to be embedded in economic scientists’ accounts of economic processes.

But why is this an interesting question to ask? It is, first, theoretically interesting in allowing an exploration of the relationship between economics and other social sciences as well as in allowing us to probe further the theoretical underpinnings and the scope of economic theories. Yet, it is not only of interest for purely theoretical reasons, it is suggested here. The present study is, in fact, driven by an interest in the analysis of an

important contemporary world political issue area: a puzzle concerning the role of global financial institutions in relation to the idea of democracy promotion. Global financial governance organisations already ‘dabble’ in matters close to the concerns of those actors who call themselves ‘democracy promoters’, yet they have simultaneously, paradoxically, had to renounce such ‘political’ interests because of the economic discourse that drives these organisations. This paper seeks to develop theoretical insights through which we might be in a better position to study whether and how economic discourses, while seemingly value-neutral and ‘democracy-neutral’, might, in fact, be considered as inherently tied to specific visions of democracy. I also want to explore the consequences that this might have for our understanding and study of the democracy promotion agenda.

The argument proceeds in three steps. In the first part I analyse the nature of economic science discourse both in economic science and in the analysis of global financial governance and democracy promotion. We see that various paradoxes arise from the discourse of economic neutrality and especially so in global governance settings. In the second part I argue that if we reconsider the thought of some key figures in economic science, we can see that the objectivist ‘economistic’ discourses and the ‘democracy-neutral’ assumptions made about economic science can, in fact, be seen as misleading. I argue that normative thought and ‘democratic visions’ are passed on in economic theories examined, even if on occasion implicitly rather than explicitly. In the final section I trace the consequences of recognising the coming together of economic thought and normative

thought on democracy in relation to analysis of global financial governance and democracy promotion.

**The problem: discourses of economic neutrality and paradoxes of ‘democratic neutrality’**

A discourse of value-neutrality plays an important role in economic science: economics is perceived predominantly as a positive science, which separates normative evaluations from scientific analysis. Such separation of facts and values became widespread after the so-called neoclassical revolution in economics in the 1870s and was solidified in the discipline through the development of economic science ‘orthodoxy’ in the early 20<sup>th</sup> century (Myrdal 1953). While accounting for the history of economic science, or even the full extent of the diversity in current economic science, is beyond the scope of this piece, it may be useful to take a closer look at how some key economic science texts view the aims and scope of economic science.

Case and Fair’s popular textbook *Principles of Economics* (1996) provides one excellent example of the way in which ‘positivist’ underpinnings work in economic science. Case and Fair’s text starts by setting out the key trends in mainstream economic science and the core assumptions that underlie the study of economics. They argue, first, that economics is a ‘behavioural science’ based on study of how people make choices. Second, and crucially for our purposes, they argue that it entails a strict separation of two



types of questions: normative and positive. Positive economics, Case and Fair argue (1996: 9), tries to understand economic systems ‘without making judgement about whether the outcomes are good or bad’. Case and Fair accept the existence of a branch of economics called ‘normative economics’, but make it clear that mainstream economic science is something quite distinct from this. ‘Positive’ economists, who constitute the core of economic science, should try to steer clear of normative questions and focus on what is verifiable or quantifiable observationally, or justifiable in terms of analytical logic. While they recognise that values may play a role in economic science, they argue that ‘it is nevertheless important to distinguish between analyses that attempt to be positive and those that are intentionally and explicitly normative’ (Case and Fair 1996: 9).

It is no surprise that economists trained on textbooks such as this are directed, not to ignore normative issues, but to separate such issues from their ‘scientific’ work. Economics as a science becomes seen as value-neutral and normative evaluations as something that falls outside it (Myrdal 1953). Importantly, such notions of ‘economic science’ also travel outside the economics profession. Assumptions about ‘objectivity’ and ‘economic neutrality’ of economic perspectives have come to influence the political sciences. Accepting the ‘independence’ and ‘objectivity’ of economic thought has been an attractive notion for many social scientists – partly perhaps because of lack of detailed engagement with economic theory but also partly because isolation of economics as a distinct, somehow more scientific discipline, has been seen as a way of protecting other social sciences from some economists’ grand ambitions to unite the social sciences under

‘economistic’ frameworks of thought. The result in any case has been the estrangement of economic theory from other social sciences.

This estrangement can also be seen in the estrangement of thought on democracy and economics. This is at first glance strange; this is because economic conditions have always been considered to be central in analysis of democratisation. Democratisation and democracy promotion literature in comparative politics and international relations has classically seen socio-economic conditions as a key aspect of its remit: ever since Lipset’s (1960) studies of wealth as a key conditioning factor of democratic development, much attention has been paid to the study of socio-economic conditions of democratisation (Barro 1999; Haggard and Kaufman 1995; Przeworski 1990; Przeworski et al. 2000). Yet, arguably economic conditions of democratisation only feature in a specific manner in this literature, in a manner that treats economic models or explanations as distinct from any studies of the normative foundations or visions of democracy. The methods applied to the study of democracy are ‘objectivist’ and economists’ engagements with the study of pre-conditions of democracy have explicitly sought to exclude exploration of the possibility that their own analytical models might be *normatively* predisposed in one direction or another, and indeed towards some normative visions of democracy over others.

Simultaneously, it is fair to say that democratisation and democracy promotion literature in political science and international relations has tended to treat economists’ models as distinctly scientific. While in the study of democratisation there is recognition of the

essential contestability of democracy and the existence of different normative models of democracy (Whitehead 2002; Burnell 2000), normative deliberations on the meaning of democracy are not linked to reflection on the implications of economic models for the meaning of democracy. This is despite the fact that liberal capitalist economic model is widely accepted as a grounding for liberal democracy, the preferred normative model of democracy (Diamond 2008; Mandelbaum 2007; Simons et al 2008; Burnell 2000; Whitehead 2002; Haggard and Kaufman 1995; Przeworski 1990). The encouragement of the liberal democratic normative ideal, it seems then, comes with an implicit but powerful economic ideal. Yet, reflection on why there is a close linkage between these models and on the *normative* nature of advocacy of liberal capitalism receives little attention.

#### *Economistic neutrality in global financial governance*

Moreover, it is not only in academia that we can observe estrangement of economic thought and debate on democracy. It is no surprise that value-neutral logics of economic science thinking also travel outside into national and global policy-making and beyond into the wider society. The rise of ‘economistic’ discourses and the assumptions of ‘economic neutrality’ have been traced in excellent ways by a number of sociologists of economic thought and international relations scholars (see e.g. MacKenzie 2008; Swedberg 1986; Teivainen 2002). Reviewing this literature is beyond the aims of this piece, yet it is crucial to note that this literature has powerfully recorded the role of economism and economic neutrality assumptions in global governance settings. A discourse of economic neutrality has been a crucial underpinning of global financial

governance throughout the 20<sup>th</sup> century and has, moreover, become hardened in recent years by the rise of neoliberalism. Global economic expertise, informed by objective economic science analyses, is conceived as purely technical and apolitical, and simultaneously seemingly disinterested in exploration of democratic normative ideals (Patomaki and Teivainen 2004: 46-7; Swedberg 1986; Teivainen 2002).

Yet, what is very interesting is that this discourse is also paradoxical. Although it is often assumed that international financial organisations should not interfere with matters ‘political’, nor normative debates about what counts as ‘good life’ in societies, these organisations do in fact engage with many political and normative matters. IMF and the World Bank, for example, hold distinct views on the promotion of good governance and on anti-corruption (Swedberg 1986; Marquette 2001, 2003; Weaver 2008). Dalliances with political matters, and the occasional use of rhetoric of democracy, create important paradoxes and contradictions, or organized hypocrisy (Weaver 2008) in the roles, functions and institutional identities of global financial governance actors. For example, while involving themselves in debates about corruption – a matter deeply political and normative in nature – there is a tendency for international financial organisations to simultaneously pull away from excessive commitments in these areas. Also, because of the perceived illegitimacy of extending their mandates to such matters, global financial organisations tend to maintain a distinctly value-neutral and ‘technical’ rhetoric in dealing with these (inherently political and normative) areas.

Given the estrangement of thought on democracy and economy, and the consequences for the analysis of democratisation and global financial governance, it seems pertinent to revisit the linkage of economic and democratic thought. With the guiding hypothesis which speculates that, in fact, democratic and economic thought may be more closely interlinked than is often acknowledged, this article aims to analyse whether the problems of democratisation analysis, as well as the workings and paradoxes of global financial governance organisations, might be elucidated through a closer examination of the kinds of ‘democratic’ normativity that may underpin economic science discourses.

### *Revisiting core economic scientists*

To do so I seek to study in some detail the normative and democratic assumptions within the work of three key economists: Adam Smith, John Maynard Keynes and Friedrich Hayek. Not only are they towering figures in modern economic science, but also, as we will see, they are far more complex characters on these issues than is often recognised. When examined in detail, we can see that each of these figures advances a normative and democracy-infused set of views on economic science, challenging the positive science-normative theory distinction that has come to define the disciplinary ‘common sense’ in economics and beyond.

These scholars are also particularly interesting to study because of their central roles in the ‘story’ of the development of economic science. The common narrative underlying the dominant positivist and economistic trends in contemporary economics is that an

objectivity seeking approach to economics was initiated initially by *Adam Smith*, the father of liberal economic thought. Smith, it is suggested, was the first to advocate a full systematic analysis of economic life and identified an independent ‘objectively’ functioning economic system. In Smith’s aftermath, so the story goes, the fact-value distinction was perfected at the end of the 19<sup>th</sup> century by the ‘marginalist’ neoclassical economists, such as Alfred Marshall (Teivainen 2002: 24-5), who were then followed by their students, even those who took away steps from neoclassical theory, such as *John Maynard Keynes*. Since the 1970s, and culminating in the thought of figures such as *Friedrich Hayek*, economics has been, it is commonly accepted, on the road to perfecting itself as a ‘positive science’ – perceived to be either on a ‘progressive unilinear process of refinement, removing from the discipline what is sloppy, partisan, or biased’ (Nelson 1996: 51) or alternatively, in the eyes of its critics, on the road to narrow ‘economism’.

While it is, indeed, true that there has been a distinct growth in the discourse of economic neutrality since the late 19<sup>th</sup> century, it could be argued that this historical narrative is also deeply problematic because it assumes that Adam Smith, the marginalists, or the neoliberals for that matter, were ‘value-neutralists’. As we will see, not only are there distinct normative foundations that underlie the rise of economic science, but also ever since the supposed value-neutral turn, there has been much implicit, as well as on occasion explicit, ‘sliding’ in economics from scientific-explanatory claims to normative statements. This has, crucially, entailed sliding towards specific normative positions on the meaning of the idea of democracy. Taking this into account has crucial effects for

analysis of the role of financial governance and of democracy promotion, as we will see in the final section.

### **The normative within positive science: discourses of democracy in economic science**

In examining the three authors chosen for the study here – Adam Smith, John Maynard Keynes and Friedrich Hayek – a two-stage approach is adopted. I analyse, first, their general orientations towards ‘normative questions’, moving on to a detailed analysis of the conceptions of democracy embedded in their frameworks.

#### *Economic theorists and their perception of the normative aspects of economic science*

Adam Smith is often considered the ‘father’ of modern economics. Smith’s work has been heavily associated with the argument that the economic sphere constitutes a sphere of its own, independent of other social spheres, which should be studied by focusing on the analysis of its specific laws and predictabilities. He has also been seen as having been the author who gave the initial impetus for a scientific neutrality-seeking approach to the science of economics: one that prioritises a careful factual analysis of economic distribution and supply and demand over moral questions (see for example Teivainen 2002). Yet, these assumptions are problematic for in Smith’s account various normative assumptions and arguments play a role.

Scottish political economists, including Smith, were, importantly, not *just* political economists, but also philosophers and moral theorists. Smith too, while famous for his *Wealth of Nations* (1776), was also well-known as a moral theorist and the author of *The Theory of Moral Sentiments* (1790). Indeed, his economic thought was tightly interwoven with the core principles of his moral philosophy, with important consequences for his economic science. First, although Smith's *Wealth of Nations* was famously an analysis of the autonomous and self-regulating logic of commerce and based on a view of individuals as purely self-interested actors, it is important to note that Smith's views on society, and on human character, were more rounded than this implies. A key aspect of his moral theory was the idea that individuals are capable of sympathetic interaction with other individuals. Indeed, his *Theory of Moral Sentiments* (1790) was centred around explicating how a system of natural justice could be built upon the development of sympathy between individuals. Crucially, Smith saw such a system of justice as fundamental in society where economic interactions had a tendency to work on the basis of self-interest (albeit, on the whole productively so). Economic self-interest then should not, for Smith, be the only guiding value in societal life. Crucially, for Smith, 'self-interest was a self-interest permeated with ideas of justice' (Backhouse 1985: 16\*).

There is another important part of Smith's moral framework that informed his economic thought: his belief in the value of individual liberty. Smith was a believer in the 'natural rights' of individuals to liberty. Far from an a-normative theorist Smith was something of a natural law theorist who derived both assumptions concerning what 'is' and what 'ought to be' from the idea that a 'natural order' of things assigned certain things to be



true, notably the inviolability of the right of liberty (Myrdal 1953). Arguably, it is because of this belief as much as any of his empirical or analytical conclusions that Smith ends up calling for freedom of enterprise in his *Wealth of Nations*.

Crucially, Smith's economic theory then is tied in closely with his moral theories of the individual, society and justice. His economic science cannot be conceived as value-neutral: it is utterly ridden with moral assumptions and normative claims. This can also be seen in Smith's conception of the practical role of economic analysis. Unlike later positivists that sought to separate economic science from practical policy-making, Smith does no such thing. For Smith economics is linked to moral theory as much as it is linked to directing of policy-practice in particular normatively and politically desirable directions. The value of 'political economy' is not in its neutrality, but on the contrary its practical, and simultaneously, its moral and normative qualities.

But what about the other two economic scientists under examination here? Are they more consistently value-neutral in their approach? John Maynard Keynes, it seems, was a positive economist in his orientation. He accepted by and large his tutor's Alfred Marshall's approach, which separated economic reasoning from ethical reasoning. The core of the neoclassical revolution instigated by Jevons, Walras and later Marshall was that ethical questions should be separated from 'normative' questions. Economic science was to be a 'pure' science where normative concerns did not direct inquiry (see for example Paul 1979; Marshall 1997). Keynes's approach to economic science is in line with this. While he was sceptical of the overuse of statistical methods (Backhouse and

Bateman 2006; 13), he emphasised objective scientific knowledge as the key to economic science. Indeed, his criticism of neoclassical economists was that they had failed to be adequately objective in their analyses, having instead clung to neoclassical precepts as a matter of ideology (Brittan 2006: 182). Keynes saw economics as a particularly technocratic and technical discipline, as one akin to dentistry (Waligorski 1997: 61).

Yet, despite the seeming value-neutrality of his approach, Keynes's treatment of normative thinking is also far from straightforward, for when examined in detail, it clearly does not meet the standards of strict value-neutrality. While his economic science writing was objectivist in tone, many deeply normative and political conclusions flowed from Keynes's economic theory, and on occasion he openly recognised this. In the final section of the *General Theory*, for example, Keynes clearly acknowledges the normative implications that flow from his theoretical critique of classical understandings of unemployment (2007: 372-92). In his other works too, as a practically-minded thinker, Keynes extended his discussion to the political consequences and responsibilities that arise from his economic theories, which emphasised the need for active intervention and engagement with economic processes, rather than operation of 'law-like tendencies'. His thought then, while not explicitly normative or political in tone, had many normative and political implications. So much so that some commentators drawing out his political thinking have called Keynes a 'political philosopher' as much as an economic theorist, 'if only in the very broad sense of the term, synonymous with "having a political outlook, much of it implicit"' (Brittan 2006: 180).

But if Smith and Keynes can be argued to have waived on the question of objectivity, surely the father of neoliberalism, Friedrich Hayek, can be seen as the paragon of value-neutralism?

Seemingly, indeed, Friedrich Hayek's approach follows the logic of economic scientism and objectivism. The point of economic science is to find the laws of the spontaneous order in the economic sphere. Indeed, this is crucial for any 'purposive organisation' of political and social life should be premised on an adequate understanding of the laws of the 'spontaneous order' (Hayek, 1972). It is, arguably, because of this distinction between spontaneous order and purposive organisation that Hayek is sympathetic to the fact-value distinction in economic theory, which Friedman (1953) had emphasised. Economic theory tries to decipher the laws of the spontaneous order, and in understanding these laws there should be no particular normative or political interference.

Yet, Hayek is not a consistent value-neutral thinker either: in fact, he was value-driven in his advocacy of the liberal market system and even moved towards an explicitly social philosophical approach in the 1970s to emphasise this. It is important to note that even in the post-II World War era Hayek did not disagree with the communist or the social democratic system merely on practical/pragmatic grounds, but on value grounds: these systems restricted, yes, the efficient functioning of social and economic systems, but also, and far more fundamentally, they infringed the normative principles of individual liberty (Hayek 1944). At its core, Hayek's thought was directed at changing society according to

a particular *normative vision*, what could be called a ‘utopian’ vision, centred around liberty. Indeed, normative and utopian thought, he recognises, is essential for him since:

an ideal picture of society which may not be wholly achievable, or a guiding conception of the overall order aimed at, is... not only the indispensable precondition of any rational policy, but also the chief contribution that science can make to the solution of the problems of practical policy (Hayek quoted in Hodgson 1999: 5).

Normative and political assumptions then seem to be embedded in these authors’ economic theories. Indeed, as Gunnar Myrdal (1953) has shown, despite the seemingly sharp turn to value-neutrality in economic science as a result of the 1970s neoclassical revolution, a number of key economists never fully did away with normative forms of argumentation. Normative leanings on many levels remained in economic science frameworks.

But are these authors interested not just in normative questions but possibly also normative visions of democracy? Indeed, they are.

### *Smith’s liberal proto-theory of democracy*

Adam Smith did not speak about democracy in explicit terms. Yet, when his economic theory is analysed in detail, arguably elements of a ‘theory of democracy’ become

evident in his account. It is interesting to note that Smith had: 1) a vision of the *values* that were to guide society that are consistent with liberal democratic theory; 2) a clear view of political *institutions* that envisions representative political institution and rule of law on grounds of equality; and 3) a specific liberal view of the *role of the state* in the economy. A ‘liberal politico-economic theory of democracy’ then comes through in Smith’s political economy.

First, Smith had definite ideas about the values that should dominate in a ‘good commercial society’. These were, first, respect for ‘natural liberty’ of the individual and, second, encouragement of sympathy between fellow citizens. Fostering of both values was seen as crucial in societal life, though the first in many ways was more fundamental. But in what ways do these values link to democratic thought? They do so in an ‘accidental’ but important sense: they are very much consistent with the societal values of liberal democracy as envisaged by other liberal democratic thinkers before and after Smith. Smith’s emphasis on natural liberty is very close to that of Locke, considered one of the early thinkers on representative democracy, and also that of later utilitarian theorists of democracy. It should also be noted that his additional concern for sympathy between individuals is close to the view of democratic values emphasised by J.S. Mill, where belief in freedom of individual was, in a fair and democratic system, to be tempered by considerations for the well-being of fellow human beings.

The second, and a far more distinctly ‘democratic’ quality in his thought, was Smith’s view that the liberal economic system and its perfection went hand in hand with a view of

what constituted the right kind of political and legal structures in society. Economic interaction of an open and free kind was to be embedded in a political institution of representative government and the legal institution of rule of law, which ensured the equal and consistent treatment of each enterprising individual. Crucially, these ‘liberal democratic’ institutional qualities were both necessitated by Smith’s very conception of the functioning of the economic system. They formed a part and parcel of his economic theory. They were called for because it was only within representative institutions and the equalising rule of law that the liberal economic system of production and exchange could be maintained. The liberal representative political institutions and rule of law served a crucial economic function. Unless entrepreneurs could be guaranteed stability of expectations in society – both in political system and before law, they would be unable to make predictions needed for making future investments. Thus, representative government and rule of law were crucial because they stabilised social context, making expectations of future profit margins and actions by competitors possible (Berry 1997). Liberal representative governance, then, for Smith, as for many other liberal democrats at the time, was seen as desirable because it was conducive to maintenance of order, market-liberal values, and stability of expectations necessary for a society in which entrepreneurship was to play a crucial role. Smith’s thinking here is closely in line with advocates especially of ‘protective’ liberal democracy, such as Locke, Bentham and James Mill (see MacPherson 1977 for a more detailed discussion).

Finally, of course, we must note that the very political and moral impetus of Smith’s tract was to make the case for limited governmental intervention in economic life. His

economic science was such that it entailed, almost by definition, a theory of representative governance that sought to, while guarantee stability of expectations in society in general, delimit any direct political interference in the market. For Smith, an ideal state was to refrain from excessive interference from the ‘natural order’ of things. Hence, contrary to socialist or social welfare theorists, representative government, while a crucial condition of an efficient market system, was not to excessively interfere in the market. Representative government’s role was to maintain support for liberal markets, not to meddle in it. This argument, again, is entirely in line with the liberal democratic theorists of the 18<sup>th</sup> and 19<sup>th</sup> century.

In sum, Smith clearly ‘did not draw the distinction between positive and normative economics’ (Paul 1979: 17) and his thought was also deeply entwined with support for a liberal ‘politico-economic model of democracy’ of a very particular ‘liberal representative’ kind.

### *Keynes and democracy*

Keynes, the key critic of many of the core precepts of neoclassical economics, did not perceive himself as a democratic theorist. Yet, it is curious that for many of his followers Keynesianism has become, not only an attractive approach to economic theory and practice, but an avenue into the construction of a distinct kind of democracy: often called social democracy (Berman 2006; Tilton 1991). Is it possible that Keynesian science of economics may not be as value- and democracy-neutral as Keynes seemed to envisage?

Keynes in his *General Theory* (2007) argued that some of the classical and neoclassical assumptions on the determination of wages, unemployment and growth led to gross misunderstandings and would result in massive social problems if applied in practice in an economic crisis. In his understanding, cutting wages would not help, but rather government should actively intervene in the economy to promote employment. It was important to maintain people's 'propensity to consume' and confidence in the economy. Government spending and taxation then could be used to stabilize the level of employment. Keynes's conclusions were revolutionary and became widely practiced in post-war environment. But how does Keynesian economic theory speak to democratic theory, if at all? It does so in three ways.

First, it was a theory of economics that explicitly argued for political control over markets. In so doing, it attacked the assumption that economics is a discreet 'naturally harmonious' social sphere, which could not and should not be politically controlled. While the control of markets, crucially, need not have been democratic (the general principles of Keynesianism are consistent also with a technocratic approach), Keynes's emphasis on the political control over markets opened up the *possibility* of democratic control of the markets. It challenged the notion of a 'spontaneous' independent economic sphere. Human volition and political will, and thereby also the possibility of democratic control, became possible and positively encouraged within the market. Economic questions became seen as political questions (Waligorski 1997: 39). This had been denied by definition by the liberal laissez-faire theorists, who advocated a narrow and limited



elitist procedural conception of democracy, the role of which was decidedly not to intervene in the market (MacPherson 1977).

In his approach to the idea of democracy, Keynes was not particularly interested, it seems, in radically challenging the classical parliamentary system of democracy. Indeed, contrary to some other 'new liberals' (Hobhouse 1963), Keynes's approach to democracy did not involve development of radical or participatory systems of democracy in opposition to classical liberal democratic representative institutions. Yet, contrary to the claims of some commentators, Keynes was by no means an anti-democratic theorist, nor disinterested in development of liberal democracy in new directions (Waligorski 1997: 38). Indeed, Keynes it could be argued, was deeply interested in revision of the conservative Schumpeterian elitist vision of democracy dominant at the time among many economist and politicians. Indeed, Keynes's approach to economics entailed if not a direct critique, a deep scepticism of the narrowest laissez-faire politico-economic models, which, for him, was seen to 'endanger both capitalism and democracy' (Waligorski 1997: 44). The lack of concern for 'social detail' in laissez-faire economism, as well as in the narrow competitive model of democracy it entailed, had to be challenged. Both capitalism and democracy would have to take a more redistributive, welfare-attuned and social justice-driven outlook.

Keynes's emphases on social justice and sustainable democracy, one could argue, were more pragmatic than anything else, yet they have had important consequences for democracy theory and normative debate on what democracy should consist in.

The full political theory of social democracy implied by Keynes was developed in most interesting ways in the Swedish context. Here 'Keynesianism' developed into a fully-fledged political and normative theory of democracy (Tilton 1991). A key aspect this theory was the political control of the market. Swedish social democratic principles in economics entailed the extension of the idea of democracy away from the narrow electoral/political conception of democracy. A unique idea of 'integrative democracy' emerged as a result. Institutionally, this entailed a dual strand democracy: democracy on electoral level, but democracy deepened by addition of democratic control over economic policy through working people's associations and trade union involvement in determination of overall national wage policy. This was in line with Keynes's own comments: he implied he was in favour of corporatism, as fostering of big firms willing to discuss public policy and wage levels with the government was a crucial aspect in a functioning stable economy (Brittan 2006: 185). In the Swedish context the Keynesian ideas were developed into fully-fledged institutional reformulation of liberal democracy by a selection of a normatively reflective trade union economists (such as Meidner and Rehn) and economically trained political actors (such as Wigforss and Adler-Karlsson). This came to entail a unique theory of democracy, one:

committed to creating a society where first industrial workers and then employees in general participated on equal terms in the organization and governance of society.

The democratic ideal ought to infuse not only political life but social and economic organisation as well (Tilton 1990: 257-8).

While Keynes's theory may have been value-neutral and seemingly disinterested in theories of democracy, his ideas did develop a distinctive normative vision of democracy. With his emphasis on social justice and equality alongside economic freedom, he opened up doors for social democratic models of democracy. His economic discourse enabled a line of thinking that emphasised political control over markets and value-wise put emphasis on solidarity and social justice in wage policy (enabled by Keynesian findings on the insignificance of level of wage for general profits, if inflation could be counted in). These ideas were, in the Swedish context for example, developed into a unique dual track approach to democracy where electoral democracy was complemented by wage-earners input into general wage-level policy. This politico-economic model of democracy was quite distinct from the liberal models – either protective or developmental, but also of Marxist models, which entailed communistic ownership policies. Keynesianism is then not insignificant for the development of democratic theory in the 20<sup>th</sup> century, although this has gone unnoticed for many economists as well as some democratic theorists.

### *Hayek and democracy*

Friedrich Hayek, the 'father' of neoliberalism, is another interesting figure to examine. Neoliberalism has of course been seen as the culmination point of economic thinking and hence we would expect Hayek's economic theorising to be highly hostile to normative and democratic thought. Yet, if we pay his thought close attention we can see

that Hayek's analysis was not only normative, it was actively engaged in dealing with matters 'political' and indeed 'democratic'.

Hayek's analysis in *Road to Serfdom* (1944), *Constitution of Liberty* (1960) and *Law, Liberty and Legislation* (1973) re-enforced the need to move away from socialist systems. His aim was to re-invigorate western political systems through arguing for the crucial significance of the value of personal liberty. At the heart of Hayek's thinking is a call for freedom of action in the economic realm, the value of economic liberty, but he argues that to attain this we must also refashion the political and legal spheres. Indeed, while his system of thought was built on the value of economic liberty (and efficiency), his aim was to rethink, on these basis, the nature of political systems and democratic constitutionalism. Crucial to this democratic vision is the idea of rule of law and emphasis on the role of representative electoral democracy as legitimizing mechanism in transitions of power (Vasquez-Arroyo 2008: 131-2).

Arguably, three core elements of a liberal democratic theory were in-built within Hayek's account of economics: 1) advocacy of (economic) liberty as a key value in democratic states, 2) promotion of liberal proceduralist constitutional democracy as the best way to realise democratic governance in an affluent society, and 3) discouragement of political control over the economy in favour of a system where individual liberty was prioritised.

Hayek's thinking, while influential in economic theory and economic policy, was in its essence a theory of democracy, a particular kind of procedural liberal theory of

democracy, the aims of which was to guarantee economic freedom and the stability of markets. He wanted to steer us clear of substantive notions of democracy of the social democrats and the socialists: democracy's core aim was to provide a system of legal and political equality, which would simultaneously ensure efficient functioning of markets and delimit excessive political control over the market.

It follows then that we should remember that the neoliberalism that arises from the works of Hayek, or Friedman for that matter (Friedman 2002 [1962]), should not be treated as a-normative and a-democratic. They are interventions not just in economic thought, but rather in political democratic thought. For them the liberal economic order that is envisaged needs as well as maintains 'democracy', while arguably also diluting its substance to a minimal liberal procedural conception of democracy (Vasquez-Arroyo 2008: 130).

What is curious about Hayek is that in his vision the economic sphere is, if you like, normatively *prioritised* but also simultaneously cut off from the democratic, this constituting the core element of their very understanding of democracy, the very core of this 'politico-economic model of democracy'. Indeed, this vision of democracy is fascinating: for in it culminates on the one hand the separation of economic and political, and economic and normative, and at the same time the *value-based* advocacy of these separations.

*Politico-economic models of democracy in economic science*

An analysis that, instead of buying the ‘value-neutral’ rhetoric of economic scientists, actually pays attention to normative assumptions within their accounts is highly informative of the underlying dynamics and consequences of these authors’ theories. It reveals not only the deep normativity of their frameworks – the tying together of explanatory and normative assumptions – but also the hidden theories of democracy embedded in their frameworks, with preferences for specific kind of democratic values, institutions and politico-economic orders. Economic theorists, far from having nothing to say about democracy, actually seem to, if often implicitly, advocate very specific ‘politico-economic models of democracy’, which are both ‘explanatory’ and ‘normative’ in nature.

These models, crucially, vary in significant ways from each other. While Smith and Hayek, for example, link economic theory of liberalism with a specific form of representational democracy, and prioritise values of economic freedom and limited state intervention in the economy, a Keynesian model challenges not only the theoretical premises of this model but also its normative underpinnings. Notably, it develops, or at least opens up the possibility for a radically different perception of what democracy should consist in. For social democratic thinkers that have developed Keynes’s ideas further, mere parliamentary democracy is insufficient, instead wider integrative democratic institutions need to be built for true social democracy to emerge.

The analysis of the politico-economic models of democracy in economic science discourses and theories is of course inevitably limited here. A wider analysis would arguably reveal an even greater variety of models of democracy in economic science theories and discourses, as well as being able to trace in detail how normative leanings are embedded in specific theoretical formulations in economic science.<sup>1</sup> We would be able to see that not only were there distinct variations of the liberal model of democracy embedded in J.S. Mill's and Alfred Marshall's economic theories, but also distinct notions of democracy, many developing 'participatory democratic' theories, could be identified in the works of many 'reform liberals', from Galbraith to Thurow (Waligorski 1997). Yet, what we have learned even from the limited analysis here is that if we open our eyes to analysis of hidden normative assumptions within economic science, economic theorists can be seen as theorists of democracy as well as of economics. Economic thought it seems is inextricable tied to political theory debates about democracy, despite the lip-service paid by most economists to value-neutrality.

### **The significance of exploring hidden economic theories of democracy**

The analysis above has directed us to pay attention to the close tying together of economic and democratic theories and discourses: in other words, it has directed us to pay attention to 'politico-economic theories of democracy'. But what are the consequences of such an analysis for the study of global financial governance and the

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<sup>1</sup> See the work of Gunnar Myrdal (1953; 1970) for some such detail.

paradoxes within them, and indeed for analysis of the dynamics of democratisation and democracy promotion?

First, in the analysis of global financial governance, we are confronted with the need to remain sensitive to the ‘hidden’ normative visions that can be embedded in the technical, objectivist, and scientific language of these institutions. Language of efficiency or equilibriums can sound technical, but underneath an objectivist face lie, most probably, a set of normative concepts, decisions and preferences. Analytical categories all too often become blurred with and hide political and normative ideals (Myrdal 1953: 104). Indeed, although non-economic audiences often fail to spot the hidden normativity passed on in economic theories, assessments and policies, and although economic theorists and practising economists themselves remain inadequately attuned to normative arguments and contradictions in their frameworks, economic science economics discourses are not as value-neutral as is generally thought (Myrdal 1970). We need to be in a position to pay attention to the hidden normativity of economic science discourses and how they are played out in economic policy, political debate, society in general and, indeed, in global financial governance frameworks. It is not within the scope of this particular piece to analyse in detail these frameworks, policies and discourses but the theoretical underlabouring conducted here points us towards this important empirical research agenda.

A ‘re-normativised’ image of economic science is also important in potentially allowing us to understand and tackle the paradoxes evident in current global financial institutions, notably the curious shifting between economic and political priorities pointed to by the



likes of Marquette (2001) and Weaver (2008). When we see a role for normative assumptions and implicit visions of democracy in economic science, we can start to understand why there might be such strange and contradictory pushes within these organisations. While economic science discourse denies political and normative visions, we have seen here that we need to recognise that political and normative visions form an essential part of economic thinking and modelling, even for the hard value-neutralists such as the neoliberals. In the same sense that views of what is a desirable representative system within a liberal economy for Smith or Haeyk, World Bank and IMF too, quite reasonably (although in an internally contradictory manner), mix together visions of economic and political orders. This clashes with the overall tone of the objectivist discourse, yet the pulls towards political and normative matters are revealed in the dabbling in good governance and anti-corruption policies. Normative and political prescriptions as to what constitutes 'good life' do not really fall outside of the scope of IMF and World Bank do, even though no formal mandate exists for their interventions in non-economic areas. With politico-economic theories of democracy in mind it is not surprising to note that these organisations 'dabble' in these areas: even though they are economic organisations, they are not a-political, technical organisations but organisations deeply concerned with prescriptions of good life.

At present the global financial organisations are quite ill-prepared to take this into account. Even those commentators within the organisations that see slippage between ideological value-systems, economic science and economic objectivism in policy making, try to retain the hope in value-neutral economic science as the ideal that economists

working in global governance should aim for (Stiglitz 1998: 14, 37). The idealised image of value-neutrality, it is suggested here, is an unrealistic and incoherent aim<sup>2</sup> and leads us to misunderstand the nature and scope of the influence of these organisations.

Furthermore, it is noteworthy that recognising the hidden ‘theories of democracy’ within economic science discourses and hence in global financial organisations allows us to rethink what constitutes ‘democracy promotion’ in international politics. As we have seen, economic science seems to be far removed from democracy debates, while simultaneously being also implicitly influential on formulations of models of ‘good life’ for societies. This is important to note for particular models of democracy can be advocated by these organisations. Since they follow largely liberal discourses it is predominantly variations of liberal democratic thought that is being reproduced in these organisations – arguments for Hayekian and Smithian kind of procedural and rule of law governed society, which facilitates economic and political liberty of individuals. Interestingly, the implicit and potentially significant role of global financial organisations in democracy promotion is often not noticed by the so-called ‘democracy promoters’, who pride themselves as uniquely interested in improving political quality of life in societies, nor in academic democracy promotion debates, which often fail to analyse in-depth the politico-economic discourses that underpin democratisation and democracy promotion efforts (see for example Diamond 2008; Burnell 2000).

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<sup>2</sup> This insight supports the philosophy of science critiques of many critics of orthodox economic philosophy of science (see for example Lawson, 1997; 2003).

The approach advocated here allows us to approach the analysis of democratisation and democracy promotion in a new way, by bringing into the scope of our analysis of democracy promotion an analysis of economic actors as potentially powerful and influential, if often rather implicit and unreflexive, type of democracy promoter. Paying attention to these actors allows us to not only have a wider view of what democracy promotion is, but crucially, also the ways in which the agenda of democracy promoters can be shaped in implicit and deep-running ways on the level of global financial organisations. Thus, for example, it is interesting to note that key democracy promoters, such as the EU, pay heed to IMF's and World Bank's economic policy directions as an underpinning of their own 'political' efforts. This confines the scope and nature of their democracy promotion efforts: for only specific kind of 'politico-economic' alternatives and underpinnings can, as a result, be envisaged (or at least coherently envisaged). Indeed, since it seems that in the global financial governance organisations a strong (if implicit) preference exists for a 'protective' liberal democratic system (given that a dominant currents in economic thinking have in-built within them a preference for this sort of democracy), it is likely that this preferencing disenables and indeed dismisses other normative visions that target states might have for 'good democratic governance', such as social democratic or participatory democratic alternatives (see e.g. Abrahamsen, 2000). Since the hidden normative preferences within economic sphere of policy-making can place constraints on the scope of the kind of democratic politics that can be envisioned in the world scene, it is important to note that it is not only the self-avowed democracy promotion agencies that 'promote democracy' in world politics, the global financial organisations do so too.

Simultaneously, the approach here reveals another aspect to analysis of democracy promotion: if financial organisations can be implicit democracy promoters, then perhaps democracy promoters too are implicit economic actors, promoting particular visions of economic life in target states. This insight taps into an interesting contradictory trend in democracy promotion and democracy promotion literature. While most democracy promoters have explicitly stated that they promote ‘political democracy’ only and that this procedural democracy is separable and independent of any particular economic system, they have also simultaneously promoted liberal economic capitalism as a key ‘condition’ or just an addition to democratisation (Diamond 2008; Simons et al 2008). Thus, the US, the EU and many NGOs explicitly call for a liberal democratic form of governance and see this as going hand in hand with a liberal capitalist market system, even if this is conceived as a separate policy agenda. What the current analysis exposes is that the division between ‘democracy’ and ‘economy’ promotion agendas is problematic. The reality of democracy promotion may better be described as promotion of specific ‘politico-economic models of democracy’.

It is crucial to recognise this – for these politico-economic models construct also power relations within democratising states and between democratisers and democratisees.

Critics such as Robinson (1996) and Gills, Rocamora and Wilson (1993) have commented on this very powerfully pointing to the kinds of power relations that the economic underpinnings of liberal democracy promotion may result in. Their criticisms are important. Yet it is important to seek better tools that might assist in the analysis of

the nature of normative assumptions in economic theory. What is distinctive about the analysis here is that it implies not only that it is important that we recognise the embeddedness of democracy promotion efforts within particular economic interests (as Robinson and Gills et al have argued) but that we also analyse the deep ways in which economic and democratic visions of the world can become intertwined. We are directed to critically examine and scrutinize the existing, but also the potentially existing, ‘politico-economic models of democracy’. Crucially, we are encouraged to do so with a view to pluralising our understanding of the range of ‘politico-economic models of democracy’ that can be conceived to exist. History of democratic theory, but interestingly also history of economic thought, provides us with many alternatives to consider to the currently dominant liberal ‘market democracy’ model. Whether and how practicable these will be in practice is another question, but one that should be tackled after, not before, consideration of these multiple alternatives. This is particularly topical to discuss in the current world political scene where the effects of the financial crisis brought on by the fateful adherence to the liberal ‘market democratic’ model are so severely felt.

## **Conclusion**

McCloskey has argued that there is a disjuncture between economists’ overwhelming support for liberal view of the world, which emphasises pluralism, difference, and free exchange, and the ‘illiberal meta-economics’ underpinning their conception of truth and science, which not only pushes out plurality of perspectives and epistemologies, but also

sidesteps taking head on complex normative and political questions tied to economic science analyses (Garnett 1999: 1; McCloskey 2002, 2006). This paper seeks to extend the sort of 'pluralising ethos' that McCloskey has been calling for in economic science. It does so by emphasising the importance of recognising the inter-linkage between normative and scientific theorising in economic science and the possibility that hidden normative assumptions about things like democracy are secretly passed on in these theories. While this is a limited contribution and much remains to be done in conducting analysis of the actual forms of normativity that are embedded in economic science and economic discourses this contribution is important in a few respects.

First, it points us to consider the contextuality of all debates on economics and also crucially on democracy. Democracy 'will never be 'taken separately'; it will be 'taken together' with other things' (Lenin 1933: 61). This is an important warning and is confirmed here in two ways: we can see that economic theories will be 'taken together' with a whole set of assumptions about politics, governance and democracy, as well as that democracy when promoted can be 'taken together' with a whole range of economic assumptions and theories. We must also note that there are important variations in the kinds of things that are 'taken together' with economic science discourses: there are variations in the normative underpinnings and the political consequences of both economic discourses and conceptions of democracy. There is no singular politico-economic model of democracy, although arguably some (or one) model is currently more dominant than others.

Second, the discussion here brings home the fact that if we do not recognise the hidden normativity in economic science we run the risk of misunderstanding the scope of economic discourses and theories in current world politics and the variety of uses they can be put to and the consequences they can have. In so doing we may fail to understand global financial governance, but also democratisation and democracy promotion adequately: as much as global financial governance is complicit in hidden and implicit democracy promotion, equally democracy promotion policies of EU and US should be recognised to include wider elements than mere democracy promotion, that is, implicit liberal market promotion policies.

Finally, the arguments explored here are potentially important for the global financial and democracy promotion organisations themselves in a very practical sense: in allowing them to confront the paradoxes and contradictions that can and often do exist in their frameworks and policies because of the hidden role of specific ‘politico-economic’ or ‘democratic’ value systems in their practices. Indeed, it is instructive to finish by remembering Gunnar Myrdal’s (1953: xii) warning on the dangers of staying oblivious to hidden normativity ubiquitous both in our everyday life and in social science:

The practice of expressing political attitudes only through the medium of purportedly objective arguments and scientific theories is probably in the long run highly injurious to the actual policy that one wishes to support. Quasi-scientific rationalization of a political endeavour may be an effective propaganda weapon; yet

its effect at the crucial time... is in a democratic setting almost always inhibitory and disintegrating.

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