

Ideology and Economic Policy Making: A Framework and Exploration of Comparative Experience

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I. Introduction

Economists have not ventured into the field of ideology and policy making for a good reason. It is a risky enterprise, given the difficulties of conceptualization and measurement. Yet, it is very likely that ideas and ideology influence economic policies. Elites who fashion economic policy face competing models of effects of their policies overall and more importantly on different groups. In such circumstances, they have to fall back on a set of beliefs or ideologies¹. Since standard policy determinants leave a significant unexplained residual, ideology is a good candidate to fill the unexplained part of the policy making². While ideas alone cannot lead to policy change (they need agents and institutions to put them into action), it seems that the joint product between interests and ideas can be an important determinant of the range, choice and use of policies. In this paper we explore the nexus between ideas and policy making.

For that we borrow some concepts and approaches from the international relations, a field that has ventured into economic policy, particularly through the window of political economy. While the present paper does not use a political economy approach per se, its influence can be readily seen. In essence, ideas provide a value system, a road map for action and rallying point for political entrepreneurs as well as policy makers. Interest groups that drive policy change may not be able to agree on the

¹. In popular discourse, ideology has acquired a pejorative connotation. The word "ideology" is associated with "bias, oversimplification, emotive language and adaptation to public prejudice" See Geertz (196x)

² Yee (1996) remarked "the inability to both neo-realism and game theory ultimately to skirt the cognitive complexity of decision making by utilizing some form of rationality assumption has led many analysts of international relations to rediscover the importance of ideas and beliefs in policy making"

precise goals and means they want to pursue³. Ideology helps to reduce cognitive dissonance. Thus to ignore the influence of ideas on policy would be to leave a significant part of the determinants of policy making unexplained. Ideas are not only a determinant of current policy, they live on much after their progenitors are long gone. They become embedded in institutions and law to have multi-generational influence. Keynes, no intellectual slouch, noted that ideas influence policies in a fundamental way⁴.

We do not raise the question how ideas are formed. But take that as given and raise the issue how ideas which ever manner they have been formed are either applied or not applied in policy making. We provide in the appendix responses to the question of formation of ideology given at a seminar in Colombo. That exercise was carried out with very limited sample. But it allows us to evoke responses from a particular group of people who depend on work on ideas for their livelihood. (See questionnaire and response to it in the Appendix 2 to this paper).

This paper contends that ideology influences policy making through different channels. Ideology imparts its influence as a system of beliefs, as a road map for action in the hands of political entrepreneurs and policy makers

³ Bates and Krueger (1993) wrote “ it is difficult for particular groups to calculate where their interests lie. Ideological struggles therefore can outweigh competition among organized interest as a determinant of policy change”.

⁴ Keynes (1936) wrote “ the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.”

and by specifying cause-effect relationships (clearly in the hands of elites) to reduce uncertainty of results arising from policy actions. Ideas influence the choice of policy options that a Government considers to address economic problems. A given ideological position would lead to some policy options to be chosen over others and some options not be considered at all. Some options increase the probability of success when addressing a particular policy issue while others clearly do not, but are chosen given the ideological position of a leader or elites who support it. Taking into consideration the close relationship between such choice and outcomes, we find no support for the implied null hypothesis that ideas have no influence on policy. To the contrary, they do have an influence but it is not always easily observable particularly in median voter politics where political candidates who seek the middle ground do not want to be associated with either distinct tail-ends of the ideological distribution.

This highly stylized policy paradigm can explain some of the reasons for policy change over time and across countries and regions. For example, during the post-independence era, Sri Lanka experienced two ideology shifts (in 1956 and 1977) and India only one in 1991. Latin America experienced many ideological shifts in the early 1980s to the early 1990s. South Asia reformed slowly compared to Latin America, with significant changes in the 1980s and some reversals in policy positions in the 1990, which can be interpreted as a regression to the mean in ideological terms.

Following this introduction, section two discusses leading definitions of ideology. Section three discusses the main policy making paradigms. Section four explores the ideas and policy making nexus. It uses a particular policy paradigm with some graphics to simplify the analysis. Section Five examines the comparative experience of ideology-policy making nexus in

Sri Lanka, India and the Latin America region using the paradigm presented in the paper. Section six gives the conclusions.

II. What is Ideology: Leading Definitions

As with other definitions, ideology cover a wide spectrum. Well-known thinkers, both past and present have provided their own definitions, in accordance with their own positions on ideology.

Karl Marx held that ideology is a cloak for vested interests (hence no influence on its own)⁵. For him, ideology has no impact on policy. It seem so ironic that someone who has influenced both policy makers and people in general could claim that ideology (namely Marxism) has no independent influence on policy. The former Soviet Union, Maoist China and the few remaining socialist states such as Cuba would disagree with the master in this regard. But importantly, he may have reformed capitalism most by making it recognize worker interests in a fundamental way to lead to more harmonious industrial relations. He did not live to see the enormous influence of his ideology on millions of people for over one hundred and fifty years. Dung Xiao Peng, the reformist Chinese leader helped to bring about a paradigm shift in China's ideology when he said, "I do not care whether the cat is black or white, as long as it catches mice". Thus embracing pragmatism as a guiding ideology and eschewing the rigid ideology of Marxism.

Max Weber was more open to the view that ideas play a role in politics and by implication on policy making. He argued that world images created by ideas are like railway tracks on which actions are pushed along by dynamic interests. Thus, Weber while recognizing that policies are influenced by interests, conceded that ideas provide the tracks on which

⁵ Cite here.

they (policies) proceed. Unlike Marx, Weber is open to the notion that ideas do matter for policy.

Zbigniew Brezinski, a modern critic of Marxism and one who predicted the collapse of the Soviet Union accurately, holds that ideology comprises a doctrinaire part and an action program⁶. His definition is more closer to real life. An Indian economist, who provided a similar definition is Raj Krishna. He held that ideology has a set of value commitments, historical generalizations and institutional preferences and it influences specific policy actions. The context in which this definition was adopted was his analysis of India's ideological evolution from the 1950s to the 1980s (see section V below). Raj Krishna believes that the Indian leader, Jawarharlal Nehru, Vallabai Patel among others took after the British Fabian moment that can be regarded today as socialism-lite⁷.

A modern and a somewhat broad definition is given by Judith Goldstein who says that ideology comprises values or beliefs held by individual actors⁸. She showed that trade policy making in the US has an apparent conflict between free trade and intervention in trade. This is due the different ideological stances of the country over time, in moving from free trade to the highly protectionist Smoot-Hartley Tariffs in 1922 and later adopting protectionist measure such as subsidies and anti-dumping due to this ideological ambiguity. Her definition is closer to that of the noted social anthropologist Clifford Geertz who defines ideology as a system of ideas that are embedded in a value system⁹. To generalize, ideology comprise a

⁶ Cite Brezinski

⁷ Cite Raj Krishna

⁸ Goldstein

⁹ Geertz

doctrinaire or belief or value system, an action program that can be implemented by political leaders and is embedded in institutions.

Later work by Judith Goldstein and Robert Keohane writing on foreign policy, provide an approach that embraces concepts that are readily applicable to a modern day policy context¹⁰. In their framework, ideology has three elements: A value system or beliefs which they call a *world view*. They are related to a society's culture, religion and identity. *Principled beliefs* “consists of normative ideas that specify criteria for determining right wrong”. The third element is called *causal beliefs* or “beliefs about cause-effect relationships derive authority from the shared consensus of recognized elites” from village leaders to scientists and elite institutions “. We adopt their framework to develop ideology and policy making nexus in economic policy making in a developing countries' context¹¹.

III. Policy Making Paradigms

The most common political economy paradigm is that economic policy changes are the result of interest group politics. They are led by political entrepreneurs who may co-opt ideas because of conviction self interest to win support or stay in power. A further refinement of this paradigm is that economic policy changes involve transaction costs related to coalition creation, negotiation, agreement and implementation: they entail real resource costs¹². Policy changes are a part of a cost minimization process in this paradigm. It is a completely rational approach to policy making where ideas have no influence in the policy decision. Ideas are

¹⁰ Goldstein and Keohane

¹¹ The following definition comes closest to the present writer's preference: “An ideology ...is an interconnected set of beliefs concerning a particular domain of human interaction that is not derived from solely from direct observation and logical inference” (Sun-Ki Chai 1998). However, it does not allow one to derive a framework that can explore the link between ideology and policy making in a satisfactory way.

¹² North (1990)

given and exogenous to the policy making in this paradigm. The rational model of policy making imply a benefit maximization subject to a cost constraint. The cost would involve political cost (such as the possible of loosing the next election) or even worse, a calamitous loss of power through a coup or revolution. The refinement with the transaction cost approach is to recognize that such costs can be identified and be minimized.

A different paradigm that treats ideas as endogenous is the so-called “reflectionalist” view of policy making. Ideas enter policy making but it has been difficult to get at the way ideas enter into the decision making process. It is also not amenable to hypothesis testing. Some have claimed such a view of the nexus between policy making and ideology belongs to the field of psychology rather than the social sciences.

Both these approaches are inadequate to explain the policy making process. They are not wrong as much as leave an area of indeterminacy with respect to policy making. Even if policy makers behave “as if” they were completely rational, there is some part of the process that leaves an area unexplained. Thus for example, high emotion politics as those of Moslem fundamentalists, who are prepared to die for their cause cannot be explained in pure rational terms. It may be seen as a tactic rather than the result of a sober cost minimization process. Similar analytical problems arise where people continue to accept bad government. And, continue to live under it for long periods of time. The issue then is how to bring in ideology into the policy making process that can help to reduce the area of indeterminacy and the ability to predict policy change in terms of a single framework that allows us to test hypothesis. Seen in this light what we search is a single framework.

A cautionary note on methodology is warranted at this point. It is extremely difficult to establish a clear link between ideology and policy making for many reasons. Among them are the difficulties of definition, measurement and limited feasibility of using statistical methodology. What we can attempt here is a rather heuristic approach that takes into account what is called congruence procedure and process tracing.¹³ The former attempts at establishing congruence or consistency between given beliefs or ideology deductively, to determine whether a causal role was played in making a particular decision. Similarly, process tracing attempts “to establish the ways in which the policy makers beliefs influenced his receptivity to and assessment of incoming information about the situation, his definition of the situation, identification, and evaluation options and finally the choice of action”.¹⁴

Simply put, for the former we examine the consistency between the avowed or implied ideology of the leadership and its policy decisions. For the latter we examine the steps leading to the policy decision. Neither is fool proof. But good deductions can make for good analysis when supported by the context in which the policy changes are made. For the issue at hand we can deduce consistency by assigning a priori ideology positions to four of the key variables, namely to leadership, to endowments, institutions and ideology itself.

With respect to leadership assigning an ideological position is clear enough since politicians have to sell a platform to win elections which has an implied ideology. Where endowments are concerned, we can appeal to the Heckscher-Ohlin model to assign a priori ideology based on

¹³ George (1979)

¹⁴ Yee (1996)

endowments. A labor abundant country will favor an ideology that is pre-disposed toward higher wages and employment in competition with capital and land. As far as institutions are concerned certain institutions have a' prior dispositions to a different ideological positions. For example, independent Central Banks support more conservative macroeconomic policies that a Ministry of Finance who is member of the cabinet and is not independent. A Ministry of Industry, for instance is less conservative and would be willing to favor protection and industrial targeting compared to more neutral policies.

What about ideology ? Given a countries, history, its cultural identity and extend of independence or dependence on super-powers, a country will have a pre-disposition towards certain ideologies. Thus the contrast between South Asia and Latin America. The former more conservative in policy change (in any direction), the latter more venturesome and less conservative in changing policies (similarly in either direction). What is more interesting is when these factors move differently from their a' priori positions.

IV. A Policy Paradigm

The key question is how do ideology enter policy ? And, what is the simplest way to think about it ? Borrowing a paradigm used successfully in the international relations literature, we recall the definition that it is beliefs or ideas held by actors. Of course ideologies change similar to the case that policies change due to ideology. We define ideology to include all three of these beliefs in our framework.

World views: based on people's conception of their identities, religion and culture (e.g. Moslem fundamentalist or Hindu extremists in India): Not to mention, Jathika Urumaya (national heritage) in the case of Sri Lanka. It is clear that different countries and regions have different world views. Thus

when they consider a given policy change the particular world view will bear on it. Thus for example the two regions we consider, namely South Asia (Sri Lanka and India) are in contrast to Latin America. South Asia had a more conservative approach to policy, such as fiscal policy until the 1990s at least, while Latin America had more expansive fiscal policies.

Principled Beliefs: normative ideas that specify criteria for judging right from wrong: (that slavery was wrong, or minority rights should be protected or men and women are equal). Ethical judgments differ among countries and regions. For example, women have less rights in the Middle East compared to Latin America and South Asia. Economic policies that would result in greater access to capital by women is limited in the Middle East compared to other regions in the world. So a change in principled beliefs may be needed to provide equal opportunities to women. Similar situation exists for minorities in different parts of the world. In India, *dalits*, the so called “scheduled” castes or “lower” castes have been provided special access to higher education. Thus the principled beliefs in India have changed irrespective of whether creating such quotas are beneficial to the country or not in the long run.

Causal Beliefs: cause-effect relationships which derive authority from shared consensus among elites in society. (that fiscal deficits are bad, increases in money growth leads to inflation, trade protection lowers GDP growth over the long run). An example of changes in causal beliefs is the situation in Sri Lanka, where large fiscal deficits seem to be accepted as benign. Similarly, the growth of money supply (mostly fiscal in origin) is considered as an inevitable corollary to real GDP growth). Changes in causal beliefs imply changes in strategies for the attainment of economic goals. These changes are more frequent and rapid than those of world views and

principled beliefs. Politicians are more able to affect this aspect of ideology more often than the other two aspects.

Political leaders, institutions and a country's resource endowments along with ideological shifts (as indicated by changes in world views, principled beliefs and causal beliefs) are the main factors in policy changes. Of course this is a highly stylized framework of policy change. Nevertheless, using this simple frame comprising four factors, it is possible to examine economic policy making . We do this by harnessing the technique of first differencing. That is, we can look at policy shifts and decide what kind and combination of these four factors were behind a given policy shift.

At times, policy shifts can be completely exogenous where the policy makers had no choice but adopt new policies in the light of such an exogenous factor such as an external shock, a physical shock such as a tsunami or in reaction to a unanticipated event in which the policy makers are pushed to a corner. Then they have no choice but adjust policies. But it is clear even random events operate via the four factors that we identified. One more caveat is in order. While ideology can impart an independent influence on policy, it needs an agent to put it into practice. These agents are political leaders and institutions. In fact, the most potent factor in policy change is leadership.

Changes in principled beliefs take a second place, followed by institutions and last of all-endowments. But even the last mentioned can have an effect, if for instance an oil shock is seen as a permanent change in endowments. A simple example is to measure the purchasing power of a sector or income generated in it through the changes in the real price of oil. This will show the extent of the shock which could not be ignored requiring policy actions. Labor for example will experience a decline in real wages

when there is an oil shock. An oil exporting country on the other hand will experience a sudden increase in its endowments, challenging the policy makers to adopt policies that allows the country to absorb the increase in resource well and not to lead to a bad after effects , as in the case of countries that have experience Dutch disease problems.

We can visualize the contribution of each factor to a policy shift in a generalized way while specific country circumstances differ. Leadership and some aspects of ideology operate in changing policies in the short run. In particular, leadership is a vital agent to carry ideas. Leadership is associated with particular interests depending on the endowments of a country.

Endowments have long run affects. They operate via relative prices: Labor abundant countries have low wages and would be more willing to accept open trade with rich countries where wages are high. Capital and land abundant poor countries will be less willing to open to world trade since they will resist declines in land rents and rental on capital¹⁵. Leadership in non-democratic countries would be more prone to cater to such narrow interests.

The influence of institutions is long term and more subtle. Certain institutions by the nature of their functions have conservative ideas. For example Central Banks tend to be conservative. Conversely, Ministries of Industry are less conservative as they are charged with responsibilities of promote industrining. As we will see in the Sri Lanka's case, it seems that institutions do not follow a well assigned pattern because leadership is more important than institutions. In this context a part of the problem arises from loss of independence of institutions when politics interfere with policy making in a direct or unfiltered way.

¹⁵ Misra et al

We developed a highly stylized graphic which attempts to capture the way that the four factors influence policy. We call this graphic a policy diamond with each corner representing the four factors- leadership, institutions, endowments and ideology. See Appendix 1. In the graphic we begin by a state of affairs which is highly stylized. In case I that all the four factors have equal influence on policy leading to a perfect and symmetric diamond (which is in formal geometry is a four sided rhombus with the character that the four sides are equal in length). The diamond provides the normalized case I where the values for the four factors are equal to one. The policy diamond in this case coincides with the outer boundaries of the diamond. In the other four cases the policy diamond has different values which vary from 1.0 depending on the dominant factor.

One can think of changes in the policies keeping this balance in which case we will have a similar shape as the early diamond. However the more familiar and frequent case is case II when policy changes are induced by the leadership in which case the diamond get dragged to the top and loses that shape to become a four sided rhombus that is not a diamond and is not symmetric with respect to both axis as in case I. Such leadership led policy changes are found in the text on Sri Lanka and Latin America in general. Case III portrays a case in which changes in endowments lead to policy change. Since endowments are associated with a long term phenomenon (such as capital accumulation), this case depicts one when there is a short run change in the endowment such as an oil shock which could be both positive or negative depending on the country whether it is an oil exporter or not. In this case endowments dominate the policy regime. In general, endowments have long term effects particularly if the oil price increase is permanent , leadership and institutional factors would assume a less

important role. Case IV shows an ideology dominant policy change such that could come about in a revolution (both peaceful through the ballot or through a coup or revolution). As we argue in the paper, ideology cannot act alone on policy; nevertheless it could well be the dominant influence in policy change as we argue in the Sri Lanka country case. But one important attribute of ideology is that it can be used by the leadership and institutions to influence policy in a conscious and calculated way.

V. The Comparative Experience of Two Countries and two Regions .

We consider two countries and two regions to explicate the influence of ideology on policy change. The two countries (Sri Lanka and India) are taken to represent South Asia for our purposes. We contrast South Asia with Latin America which is an entirely different region not only in terms of endowments but with respect to all the four factors that determine policy. This comparison, limited as it is, would provide a contrast in which to test our framework and reveal how ideology influences policy in different contexts. In other words the framework we have chosen must have generalized applicability.

(a) Comparative Experience: Sri Lanka

Sri Lanka provides a good laboratory to test our framework. We reckon there were two episodes that led to a fundamental shift in the policy paradigm which we identify with a dominant factor that led to a policy changes.

The 1956 defeat of the UNP which had remained in power since 1948 was a highly significant event for a number of reasons. First, the UNP governments that were in power up to 1956 were a continuation of the colonial regime in terms of politics and economics. By 1924, Sri Lanka

began a path towards self Government. By 1931, under the Doughnomore constitution, Sri Lanka had a large measure of independence with respect to domestic affairs and policies. With the Soulbury Commission in 1947 Sri Lanka became an independent sovereign state. The UNP government's pretty much carried on the same paradigm as under the British with respect to economic, political and social policy. The defeat of the existing paradigm was very much a re-assertion of Sri Lankan Sinhalese majoritarian world views (i.e. reassertion of religion, culture and national identity), that predated the foreign domination of the country. In that sense the 1956 policy shift was very much ideology driven. The agent and leader of the changes that were brought in after 1956 was Prime Minister S.W.R.D Bandaranaike who saw an opportunity to mobilize the forces that had a different world views, principled beliefs and cause-effect relationships from the political elites of the day who were Western educated, English speaking middle class and more multi-religious and ethnic compared to the SLFP membership.

Thus the policy changes that were heralded in after 1956, give clues to their ideological origins. They were associated with an ideology that was in contrast to the existing ideology. These policy changes included among others, creation of public corporations, greater affinity with the Soviet bloc as evidenced by the bilateral payment agreements signed with countries of the Soviet block and changes in institutions such as the introduction of the Paddy Lands Act that altered the relationship between land lords and tenant farmers . These changes that could be traced at least in part to ideology in its three manifestations- world views, principled beliefs and cause-effect relationships. It is noteworthy, that world views did not change as much as they were able to influence a new group of politicians. These politicians were able to influence both principled beliefs and cause-effect relationships.

Since the 1930s, Socialist politicians had tried to alter the ideological milieu of the country towards their ideology. But they failed due to two major reasons. First they were not in position to be in power given that Sri Lanka was not independent. Second, even when it became independent, their ideological influence was not accepted by the larger community. This is because their views were discordant with the world view of the majority, particularly the rural masses (both the Sinhalese and the Tamils). They made an inroad which may have influenced principled beliefs at the 1953 Hartal but it was not sufficient to allow them to come into power.

The 1956 ideological shift is associated with the victory of the Sri Lanka Freedom Party. Earlier policy regimes had continued with the pre-1948 economic policy framework. In this shift, leadership mattered to cause this ideological shift. Mr. Bandaranaike the leader of the coalition that defeated the UNP had influenced the principled beliefs and cause-effect relationships to wrest power from the them. His platform included such elements as making Sinhalese the official language of the country and giving pride of place to indigenous institutions. The policy change was a result of an ideological change since there was no foreign exchange or macroeconomic crisis at that time to cause a policy shift. In this sense the analogy is of a gradual built-up of opposition to the post-colonial policy regime, in a cumulative process rather than a shift in the tectonic plates of the political system.

The 1970-77 period led to further ideological changes culminating in the tightening of the companies act, the nationalization of the estates and land reform. The alliance SLFP-Marxists changed the ideological make up. There was a distinct left tilt to the coalition. The world view changed as did the cause effect relationship to presage the policy change towards greater

intervention in the economy. Part of it can be explained by macroeconomic problems due to the first oil shock (1971-73) but these are not sufficient to explain the extent of the policy shift. A definite leftist agenda was in the cards but it could not succeed as much as it could have because, the Marxist creed was not in accord with the world views of the majority; it had more respect for private property but not enough of it to prevent the nationalization of plantations, forced (but partially compensated) distribution of private houses and tightening of the company laws act and the introduction of the Termination of the Employment Act. But it is important to note that the policy changes in the 1970-77 period was more of a continuation of the policy shift of 1956. It was also the necessary adjunct to a political compromise needed to create a coalition with the Marxists parties. Economic policies of this period were very much influenced by the perceived macroeconomic crisis. Research done later (Athukorala and Jayasuriya 1992) show that the government over-reacted to the crisis and crunched down the economy more than was necessary to make the adjustment to high oil prices.

The major policy changes took place in 1977. It was an ideological shift that undid to a large extent the tilt to the left in the previous seven years. The UNP victory by a large margin provided the opportunity to change policy in a diametrically opposite way. This was possible due to several reasons. First, the earlier SLFP and Marxists parties policies has failed in a dramatic way in per capita GDP growth, in employment and in maintaining external balance, given huge payments deficits that emerged despite tight import controls. Second, the crisis of the cumulative effect of the oil shock provided the opportunity for the UNP to undo the political economy balance in its favor and against the SLFP led coalition government. Third, Mrs. Banadarnaiques'

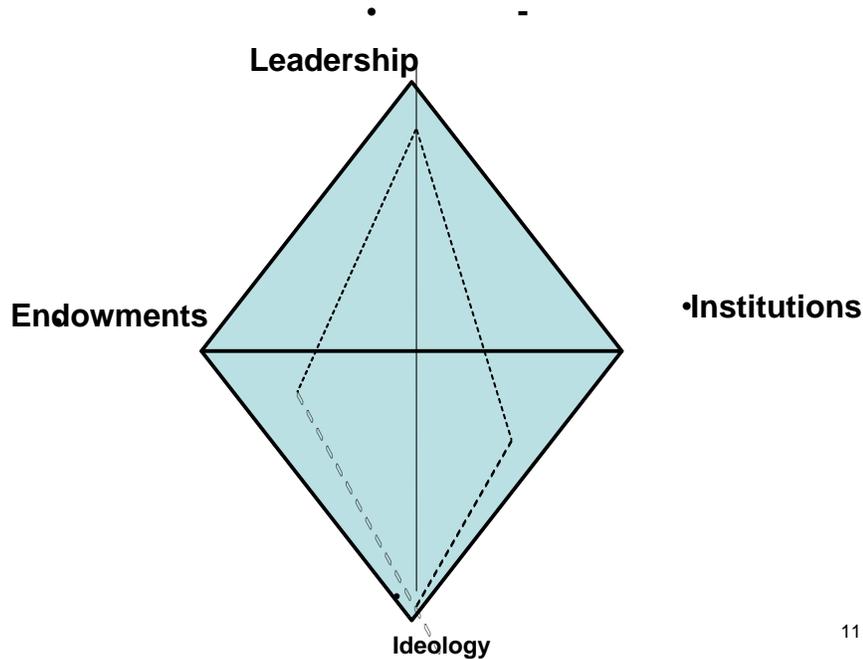
government had extended the life of parliament to seven year from five without a mandate from the people without a general election and or a referendum. Fourth, the events in India where Mrs. Gandhi had assumed an authoritarian stance gave pause to Sri Lankan voters that a similar position could be taken by another SLFP government, if elected. Finally, the election itself which provided a strong mandate for reforms with a eighty per cent of the seats in UNP hands provided the opportunity to undertake strong reforms.

The ideological factor played a decisive role in the election. The leader of the opposition and later the President, Mr. J.R.Jayawardena was convinced that Sri Lanka's future lay in a more market oriented private enterprise system rather than in the commanding heights approach that had been in place during much of the 1960s and the 1970s up to their victory in 1977. The election was fought on ideological grounds. More than world views what seem to have mattered in the election was principled beliefs (where the elites endorsed the return to a more market driven economy and the cause effect relationship that got much support from the success of the East Asian countries that had grown rapidly while Sri Lanka had languished in the period 1960 to 1977. With the election victory a broad ranging reform change was undertaken. These changes included a strong liberalization of the trade regime, the liberalization of the financial system in allowing interest rates to allocate short term capital and suspension of many of the egregious policies in place such as the nationalization private enterprises. It is difficult to assign precisely, values for the three aspects of ideology. It is probably safe to say two elements dominated the policy changes in 1977-2004 period. They were principled beliefs and cause-effect relationships. The former because of the change in the mind set of the elites who saw that

the Sri Lanka's experience of the 1970-77 period was not going to work, the example of the East Asian countries provided a good example to be followed. It is however, important to emphasize the role of President J.R.Jayawardena who was a transformational leader and had received an overwhelming mandate by the election to transform the economy.

In terms the graphic for the period would show a combination of cases II and case IV proto-types in the Appendix. We refer to it as case A (see below). In other words the policy change was the result of an ideology changes combined with a leadership change. Few characteristics of the graphic are noteworthy. There is more area in the lower part of the diamond depicting the ideology region and a similar depiction of leadership as shown in the upper region. The regions along the horizontal axis are smaller given the little or no influence of endowments and institutions. This is because physical endowments remained unchanged at the time of the reform. Similarly, region ascribed institutions is small too. It is noteworthy that the existing institutions would not support the significant shift into liberal economic policies since these institutions were influenced and indeed changed since the first episode of change in 1956 and later that changes was reinforced during the 1970-77 periods where laws to restrict private sector activities were initiated.

**Case A: Ideology & Leadership Led
Policy Change (1977-94)**



11

There was no ideological shift even in 1994, when Mrs. Kumaratunga became president. The 1977 policy paradigm continued. She may have used her leadership to keep things as they were.

What about after 2005? It is hard to tell. There seems to be an ideological shift by stealth rather than by announcement. Witness the halting of the reform agenda, the lack of fiscal discipline and the creeping and non-transparent use of trade controls. There is also no discussion of policy in public forums except to justify some questionable policy outcomes such as inflation, foreign borrowing at commercial interest rates and bloated public expenditures.

Comparative Experience: India

At independence in 1947, India was well on its way to abandon the colonial policy paradigm given its protracted struggle for Independence.

Indian leadership, particularly Jawaharlal Nehru admired the Soviet economic model and adopted economic policies that reflected a change in the ideological set up with respect to principled beliefs and cause-effect relationships. The adoption of the Soviet planning model with the help of Mahalonobis represented this departure. Raj Krishna identified ideology of Indian elites at the time as distinctly Fabian. (state ownership, widespread control of the private sector, state led industrialization with emphasis on heavy industry, infrastructure and finance). This ideological position stayed with the Indian leadership for 43 years, until the liberalization of the early 1990s.

Why did it happen?: Because principled beliefs changed as did the cause-effect relationship: economic performance for 40 years was dismal-per capita GDP growth averaged below 1.5%, poverty rate remained high, the Soviet model collapsed and India ran into macroeconomic difficulties.

Starting in 1990s, India's policy paradigm shifted towards more market oriented policies. New leadership and an increasing English speaking middle class helped to change the ideological milieu.

But why did it take so long? Again ideology is implicated, given the long history and strength of its world views (religious, cultural and societal constraints such as the caste system) change has been slow. As India grows fast one expects more ideological shifts to take place that would favor more open economies and favor private enterprise as never before. The rivalry with China will also help. But India will win out at the end, given that it is a functioning democracy ,where political, social and economic interests can negotiate a stable path through elections and greater participation of people in the political process.

Comparative Experience: South Asia vs. Latin America

One puzzle of the policy paradigms of the 1980 and 1990s between South Asia and Latin America is that the latter reformed fast while the former moved slowly.

Can one explain this through our framework ? Latin America has entrenched elites who benefit from its land abundance and was under no pressure to reform, as India and Sri Lanka were. Given labor abundance, they had to open their economies to take advantage of labor abundance.

In the 1980s Latin America had dictatorships with strong presidential form of government, sudden change was easy: witness Chile under Pinochet, Argentina under the generals as were Brazil, Uruguay and, Venezuela Bolivia. The most democratic countries in the region, Colombia, Costa Rica moved slowly on policy reform.

In our framework, leadership dominated over changing ideology. It now seems that Latin American countries have regressed to the mean in terms of economic policy. Their 1980s and 1990s reforms were an aberration. Except Chile, some have moved to more state intervention.

Why policy shifts were slow in India in particular is due to the power of institutions created by the Nehru regime. Their influence wanes slowly. Witness the reservation policies in employment and the difficulties in dismantling the “license raj” and continued protection of consumer goods.

Also as noted before, world view and principled beliefs change slowly in India, given its vastness, diversity and rural sector dominance.

Conclusions

Ideology influences policy making through different channels: the most powerful being its influence through cause-effect relationships and through leadership.

Ideology imparts its influence as a cross product with the other three elements. Nevertheless it does influence policy: We reject the null hypothesis that ideas have no influence on policy.

Our highly stylized policy paradigm can explain some of the reasons for policy change over time and across countries and regions. Sri Lanka experienced two ideology shifts (1956 and 1977). India only one in 1991. Latin America experienced many.

South Asia reformed slowly compared to Latin America. The latter's reforms took place under regimes that served narrow and mostly land owning interests.

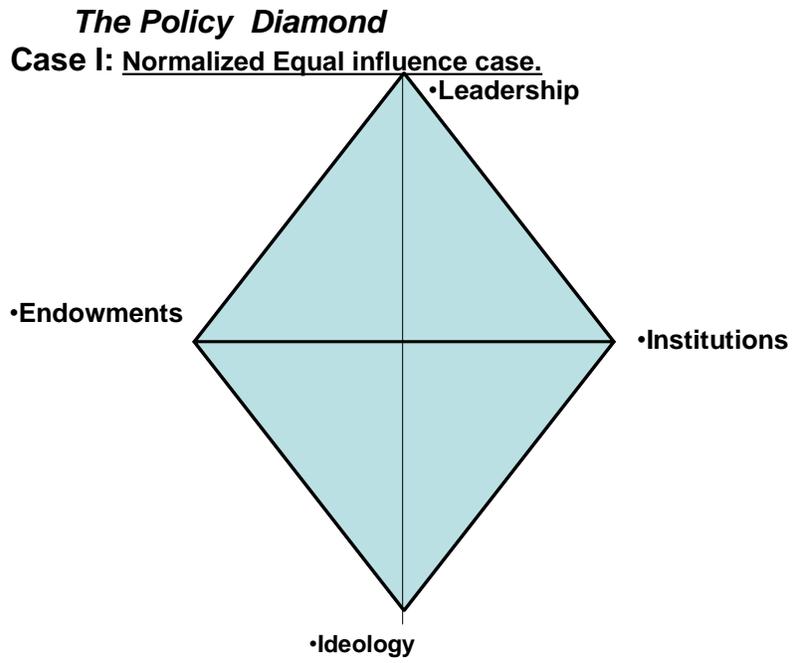
Future research in this area could consider (a) tighter conceptualization of ideology (b) ways of measuring ideological shifts (c) analysis of ideology creation and its sustenance (d) How to model influence of ideology on policy in a consistent model that specifies preferences clearly (in the utility function) and how to define the constraints properly under which rational agents operate to influence and adopt policy change.

Appendix 1

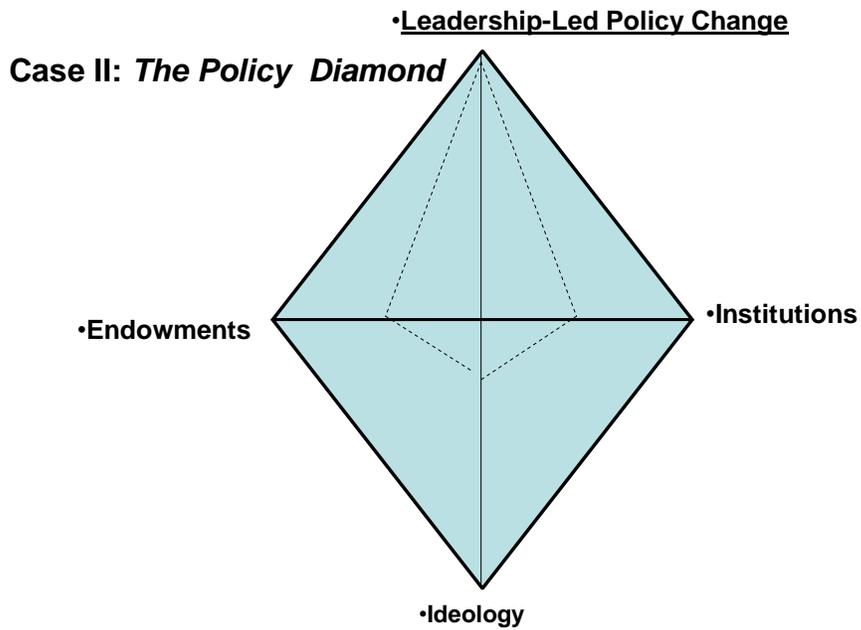
A Policy Paradigm: A Graphic

The policy diamond represents the four main policy influences or changes: Leadership, Institutions, ideology (all three aspects) and endowments.

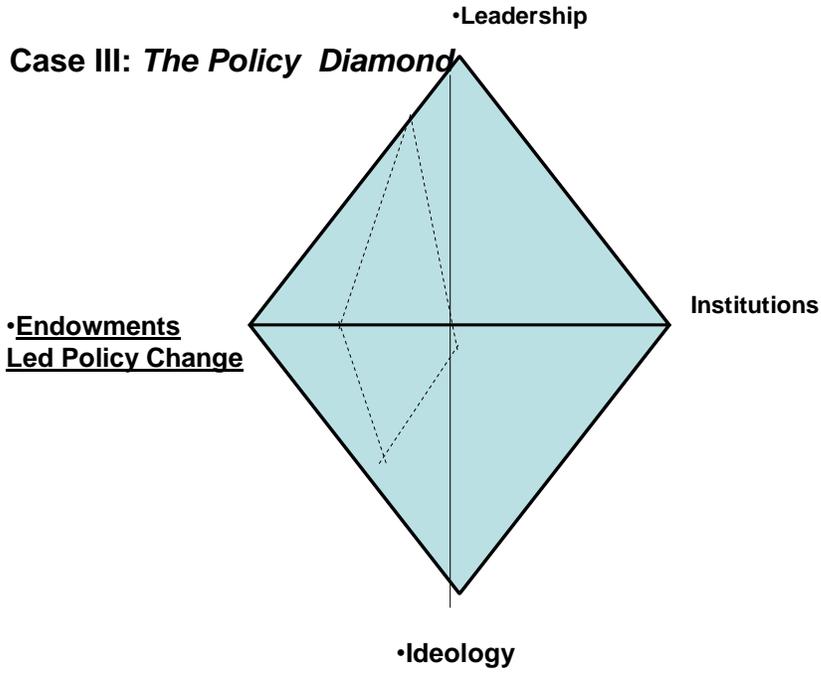
We normalize the graphic to have equal influences in Case I: A highly stylized situation of equal influence. Case II: represents a dominant leader model. Case III: shows endowment led change. Case IV is an ideology led policy change. Case V: institutions led policy agenda. As we saw before, it is the joint-product of any combination of influences that leads to policy change. More often than not, its leadership that marshals a particular aspect of ideology that lead to change. With these observations we explore the comparative experience over time in Sri Lanka and over countries (India and the Latin America region).



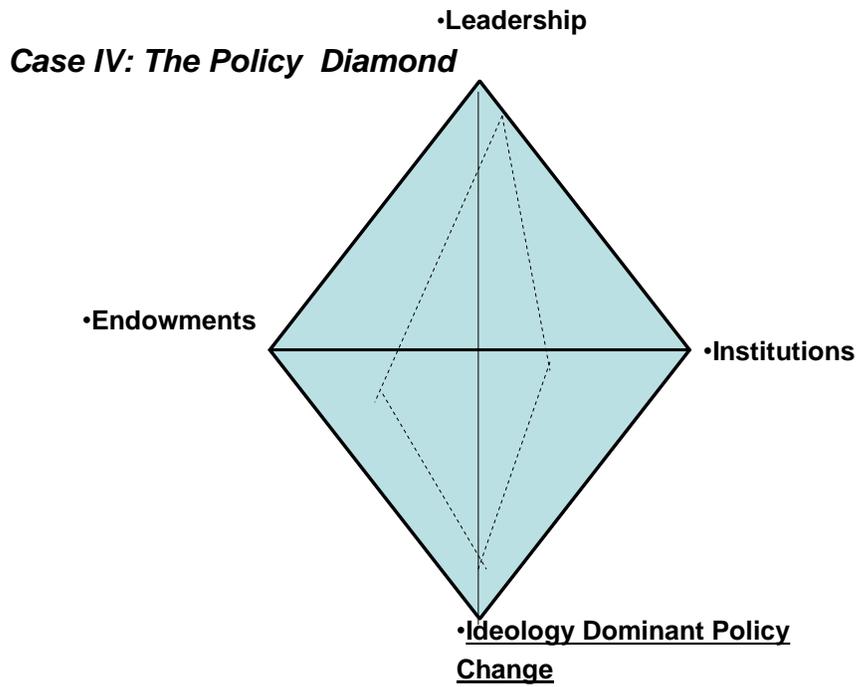
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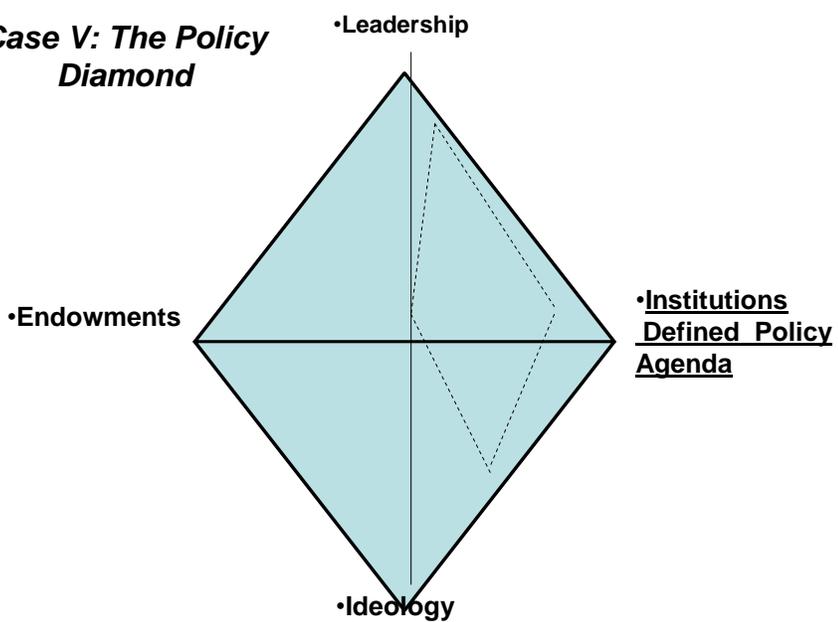


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**Case V: The Policy
Diamond**



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Appendix 2

A Questionnaire on Ideology

The main objective of this questionnaire is to use it as an instrument to sharpen our work on ideology. It is certainly not to find out about the particular ideology of the respondent. By answering these questions you will help the author in two ways. First, you will help us to define the questions on ideology better than weI have done in my presentation, to move from a more abstract to a more concrete inquiry. Second, you will give us a key to the sources of ideology formation in Sri Lanka.

We thank you in advance for your help.

1. Please categorize Sri Lankan Prime Ministers and Presidents using the following categories. Right (R), Left (L), Right of Center (R/C), Left of Center (L/C), Center or difficult to categorize(C) based on what you regard as their ideologies.

Mr. D.S. Senanayake

Mr. Dudley Senanayake

Sir John Kotelawala

Mr. S.W.R.D Bandaranaike.

Mr. W. Dahanayake

Mrs. Sirimavo Bandaranaike

Mr. J.R.Jayawardena

Mr. R. Premadasa

Mr. D.B.Wijetunga

Mr. Ranil Wickremasinghe

Mrs. Chandrika Kumaratunga

Mr. Mahinda Rajapakse

2. Please rank them using the same categories within each group. E.g. most ideologically right to most ideologically left, R (1) to R (n), L (1) to L (n), etc. (Note of course we cannot have a category as most Center!)

3. What is the basis you have used to categorize these leaders?
- (a) By mostly their actions or their statements? (use A or S): Please use only one category.
- (b) How would you categorize them in terms of their:
- World views (identifiable preferences as dictated by religion, culture or specific identity).
- Principled Beliefs: (e.g. do their actions show belief in minority rights, equality of men and women or need to provide equality of opportunity to all irrespective of initial conditions).
- Cause-Effect relationships: Do they show by their actions as to what will work or not in economic policy? e.g. : inflation is bad, protection does not maximize long term growth or state ownership of the commanding heights of the economy (power and other infrastructure and financial institutions) is necessary for development.
4. What factors have been responsible for the formation of your own ideology with respect to the three groups in question 3: (that is in terms of world view, principled beliefs and cause-affect relationships. Note that I am not asking you about your own ideology but what has caused you to hold on to a particular ideology).
- (a) Parents influence.
- (b) Education: type (English or other medium) place and level.
- (c) Domestic vs. Foreign influences
- (d) Reading and formal inquiry.
- (e) Teachers, leaders and associates.
- (f) Your own and independent thought.
- (g) Other factors not specified above.
5. Please give your opinion: Why policy makers and a large majority of analysts in the country hold following sample of views? (these opinions are derived from a sample of journal articles, newspaper articles and editorials published in Sri Lanka and from listening to discussions at some conferences and workshops in the country).
- (a) Markets do not work.
- (b) If markets work, they do not help the poor.
- (c) There is nothing wrong about state ownership of the means of production.
- (d) International trade is more beneficial to the rich countries.

- (e) East Asian growth success is largely the result of selective intervention in trade and industry by the State.

Please use the items (a) to (g) in question 4 above, to provide an answer to question 5. (please add any opinions that you consider to be representative of the state of ideology in the country).

(Questionnaire circulated at the seminar at the IPS on “Ideology and Economic Policy Making: A Framework and Exploration of Comparative Experience”)

Sarath Rajapatirana
03 April 2007

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