

# Legal Issues of Global Governance, Economic Development and Democracy: Towards a Legal Theory of Restructuring the International Economic Institutions

Cüneyt Yüksel\*

## I. Introduction

The crisis of economic development and democracy is by now quite evident.<sup>1</sup> Yet economic development and democracy remain a remark-

---

\* Asst. Prof. Dr. Cüneyt Yüksel is a graduate of University of Istanbul Faculty of Law. Dr. Yüksel has a master's of law (LL.M.) degree from Harvard Law School, Cambridge, USA and has a doctorate of law (Ph.D.) degree from Stanford University, CA, USA. Currently, Dr. Yüksel is an Asst. Prof of law. at the Department of Management, Faculty of Economics and Administrative Sciences at Boğaziçi University, Istanbul, Turkey.

<sup>1</sup> The decline of development as both a discipline and a program has been chronicled from a variety of perspectives by economists, political scientists, anthropologists, sociologists, and organizations. The literature signaling or demanding the "demise" or "decline", or arguing for an "alternative" or "sustainable" development, is vast. Here, I merely offer a representative sample. For, respectively, the lament and glee of economists at the fall of development economics, see Albert O. Hirschman, *The Rise and Decline of Development Economics*, in *Essays in Trespassing: Economics to Politics and Beyond* 1 (1981) (the classic essay on the decline of development economics from a founder of the discipline, nothing, "as an observer and longtime participant I cannot help feeling that the old liveliness is no longer there, that new ideas are ever harder to come by and the field is not adequately reproducing itself"); Deepak Lal, the Poverty of "Development Economics", 109 (1985) (a jubilant, polemical announcement by a neoclassical economist that "the demise of development economics is likely to be conducive to the health of both the economics and the economies of developing countries"). See also Keith Griffin, *Alternative Strategies for Economic Development* (1989) (a thorough survey of development "strategies," reporting the Findings of a major research project of the OECD Development Centre).

ably potent source of images, indeed of imaginations.<sup>2</sup> The necessary

For analysis through the lenses of political science, political economy, international relations, anthropology and sociology, see Samir Amin, *Maldevelopment: Anatomy of a Global Failure* (1990) (offering a political and historical account of the "failure of development"); R. B. J. Walker, *one World, Many Worlds: Struggles for a Just World Peace* 128-33 (1988) (arguing, from the standpoint of critical international relations theory, that "the rhetorical power of the concept of development is at odds with its conceptual, political, and ethical incoherence"); Michael Redclift, *Sustainable Development: Exploring the Contradictions* (1987) (explaining the intellectual traditions and the economic structures – the "social construction" – of development and environment); D. L. Sheth, *Alternative Development as Political Practice*, 12 *Alternatives* (1987) (pursuing an "alternative normative approach" where the question is approached less within the conventional categories of economics or statist politics than in terms of evolving conceptions of basic human needs, alternative life styles, self-reliance, ecological appropriations, and so on.); F. E. Trainer, *Reconstructing Radical Development Theor*, 14 *Alternatives* (1989) (proposing, *inter alia*, to "[t]otally abandon Western affluence as a goal of development") See also David C. Korten, *Sustainable Development*, 9 *World Policy J.* 157 (1991-92) (reviewing the state of the art in development proposals and rhetoric on the eve of the Rio Earth Summit).

For analysis by or about activists and development workers, see Robert Chambers, *Rural Development: Putting the Last First* 168 (1983) (a key text in alternative development circles, arguing for a "new professionalism" that emphasizes "reversals" in the values, preferences, and subjectivity of development specialists); Michael Edwards, *The Irrelevance of Development Studies*, 11 *Third World Q.* 116, 133 (1989) (asking "why is so much said, written and spent on development having so little effect on the problems it seeks to address?"); Gustavo Esteva, *Regenerating People's Space*, 12 *Alternatives* 125, 135-37 (1987) (offering a story of "de-professionalized intellectuals" working with peasants in Mexico: "In Mexico, you must be either numb or very rich if you fail to notice that 'development' stinks... [In fact,] all forms of 'alternative' development are nothing but a deodorant to mask the stink of development.").

For philosophical reflections, see Cornelius Castoriadis, *Reflections on "Rationality" and "Development,"* in *Philosophy, Politics, Autonomy: Essay in Political Philosophy* 175, 192 (1991) (exploring "modern technique" as "[the] vehicle for the illusion of omnipotence").

Finally, while the above texts deal with the effort to re-enact development in some far-off land, we might also consult Hirschman's interrogations of texts on the original production. See Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph* (1977). Hirschman asks, "what social order solve certain problems, and that it clearly and abysmally fails to do so?" *Id.* at 131. Hirschman is talking about "capitalism." If we exchange the words "social order" and "adopted" for "discipline" and "created," he could well be questioning "development." However, the point, in either case, is not nearly as obvious as it might appear, as Hirschman's book intricately demonstrates.

<sup>2</sup> I want to suggest, at this point, that "our" imagination is not necessarily "ours", that what we take to originate in our own consciousness are likely to have been already presented to us externally. What we present as our subjective own is merely our representation of some objective given. Conversely, what we claim as simply an uncontroversial representation of some external "fact" is necessarily our own construct. The



imagination involves establishing a more intimate link between the formal apparatus and casual conjectures of legal and economic theory. This link, in turn, can only be built on the basis of a more realistic understanding of actual and potential institutions. This institutional perspective will allow an alternative vision of democratic development to emerge, a vision that has embedded with detailed proposals for supportive legal institutions.

In light of this, the present article explores the debates about the relationships with the structure of the world economy and national economic development. The structure of the world economy is sometimes seen as a rescue machinery and some other times seen as merely a constraint, a very powerful constraint upon institutional experimentalism within the nation state. So a familiar theme in contemporary political debates is that the connectedness of the world economy has draftedly diminished the room for the maneuver within the nation state, thus imposing severe limits on the national construction of institutional alternatives. Here I want to develop a suggestion. In this familiar way of understanding the connection between national experimentalism and world economy is in fact one-sided that it is very substantially misleading. Look at more closely the structure of the world economy or the relation between world economy and national experiment turned out to be less and independent constraint than just one more theater of conflict and controversy. One more theater in which problems and opportunities similar to those we have already encountered in the world within the nation-state reappear.

So the animating impulse of this proposal for the reconstruction of the Bretton Woods system and its connection to national development experimentalism is the belief that the world economy needs more, not less, of all benefits Bretton Woods was designed to provide through international coordination and supranational institutions. However, there are two main problems with the present design.

## **II. Problems with the Present Design of the World Economic Institutions**

The first problem is that in the aftermath of the breakdown of fixed-parity exchange the practices of the IMF have to come to confuse the fun-

---

assumed dichotomies of subjective / objective, internal/external, cause/effect are problematic. See Friedrich Nietzsche, *The Will to Power* (Walter Kaufman & R. J. Hollindale trans., 1967).



damental but minimalist task of keeping the world economy open in the presence of balance-of-payments difficulties with the work of national turnaround – helping to rescue developing countries, or countries in radical transition, from bankruptcy and chaos.<sup>3</sup> The result has been the system of the conditionality agreements: to meddlesome in some respects yet not meddlesome enough in others. This turnaround task, for its part, has been confused with the practice of fundamental development assistance.<sup>4</sup> The consequence has been a failure of the World Bank to arrive at a credible and effective understanding of its mission.

The second trouble with the present system is that the unitary and bureaucratic character of the Fund and the Bank inhibit the fulfillment of both the turnaround and the developmental missions. The Bretton Woods organizations cannot act without taking sides in the contention among alternative national developmental strategies. To avoid taking sides too much – or to conceal the extent to which they do take sides – they find themselves forced to strike a paralyzing balance between interventionism and self-moderating the effects of transitory exchange-rate volatility and balance-of-payments crises upon the world trading system becomes compromised by its association with more controversial activities.

The solution – I argue – is to disaggregate tasks and multiply agents. The threshold job should continue to be done by a far smaller and less

---

<sup>3</sup> The International Monetary Fund was created in 1944 on the wise judgment that international financial markets and monetary arrangements are subject to instabilities and inefficiencies that require public intervention. Just as domestic financial markets are enmeshed in a complex network of laws and regulatory institutions, so too a stable functioning of international financial markets (and national economies linked by those markets) requires a set of laws and institutions to ensure their stable operation. The IMF was assigned three basic missions: to monitor the pegged exchange rate system; to lend short-term funds to cash-strapped governments, mainly to enable them to maintain their pegged rates; and to promote currency convertibility and cooperative management of monetary relations. See Jeffrey Sachs, *Do We Need an International Lender of Last Resort*, Paper Presented at Harvard Law School (1995).

<sup>4</sup> The IMF has periodically reinvented itself during the past 50 years as monetary and financial circumstances have changed. For the first 25 years of operation, the IMF main responsibility was to monitor the emerging adjustable peg exchange rate system originally envisaged at Bretton Woods. What that system foundered in 1971, and the currencies of the major economies began to float, the IMF was initially at a loss for a certain function. As much as the IMF has evolved, it has not kept pace with changes in the world financial system. See a similar judgment in Z. Minton-Beddoes, *Why the IMF Needs Reform*, *Foreign Affairs* (May/June, 1995).



interventionist version of the IMF. However, the turn around and the development work should be undertaken by a multiplicity of competitive organizations equipped financially, technically, and intellectually, to experiment with alternative assistance practices and to support alternative development strategies. Experimentalism and pluralism should take the place of dogma and uniformity.

These proposals stand in sharp opposition to the idea of gradual movement toward a world central bank, which, under unified bureaucratic direction, would combine the responsibilities I seek to distinguish. Like the staffs of the Bretton Woods organizations of today, such a bank would be doomed to live in a twilight world, shut off from the bright lights of uncompromising science and democratic politics. Unlike science, it would cling to consensus. Contrary to democratic politics, the consensus from which it drew life would remain undisciplined by open conflict.

In addressing the sources of trouble I have described the argument of this paper makes three main intellectual moves. The first move is the generalization of supposedly specific problems. For example, "soft-budget constraint" issues, attributed to command economies, turn out to be pervasive in contemporary economic life.<sup>5</sup> A chain of analogies (and dis-analogies) links turnaround problems about firms and about whole national economies, about poor countries and about rich countries. The second intellectual move is to examine the existing institutions of market economy, to criticize the neoliberal project, to reject the idea of institutional fetishism,<sup>6</sup> and to explore possible alternative institutions of

---

<sup>5</sup> According to Janos Kornai, "the softening of the budget constraint appears when the strict relationship between the expenditure and earnings of an economic unit (firms, household, etc.) has been relaxed, because expenditure will be paid by some other institutions, typically the paternalistic state." Janos Kornai, *The Soft Budget Constraint*, KYKLOS, 39(1) (1986). It is the widely shared belief that the root of SBC is the state ownership. Kornai admits there is SBC under capitalism, too. But he considers it as an exceptional phenomenon there, where under socialism SBC is a normal state of economic life. However, from a Schumpeterian perspective, it can be argued that SBC has a deeper root in any modern market economy based on credit money. See Joseph Schumpeter, *History of Economic Analysis* (1954).

<sup>6</sup> The result of this discovery resists the taint of institutional fetishism. Here, I define "institutional fetishism" as the identification of the abstract institutional conceptions like the market economy or free civil society with a particular repertory of contingent arrangements. That is to say, we must choose from a closed list of institutional alternatives in the design of our social order. Especially in developing countries, institutional fetishism has been dominant in both liberal and social theory. See, e.g., Douglas C. North, *Institutions, Institutional Change and Economic Performance*, (1990) (presenting established institutions as the natural product of economic rationality, inter-



market economy. The argument arises from the discovery that the market economy does not have natural and necessary legal-institutional contents and therefore substantially more open to a transformation of the usually posited conflict between growth and democracy that most theory and policy assume. The third intellectual move is the extension to the public institutional framework – in this case, the framework of multinational or supranational institutions – of the themes of competitive pluralism we more often associate with market economies.

Economists, such as Sachs and others,<sup>7</sup> have suggested that Bretton Woods institutions in general and the IMF in particular should assume the role of international turnaround agents – a worldwide Chapter 11 (the part of American bankruptcy law dealing with debtor-in-possession reorganization as an alternative to the outright liquidation of a firm). The turnaround job would complement the development-assistance task to be undertaken, evermore decidedly, by the World Bank. It would help to shape an economic environment in which development assistance can prove effective. Such a program would supply the missing rationale for conditionality agreements in the long aftermath of the collapse of the fixed-parity system. It would also clarify the de facto allocation of functions between the Fund and the Bank. Finally, it would provide support for efforts to assert greater independence on behalf of the Breton Woods institutions.

Discussion of this view helps to probe the limits and the contradictions of ideas and attitudes that are making a strong bid to become the working philosophy of the new world structure and its relations with the national development experimentalism. The discussion advances in four steps.

### III. The Discussion of the New World Structure and its Relations with the National Development Experimentalism

First, I comment on the pervasiveness of turnaround and soft-budget constraint problems in contemporary national economies. There are significant disanalogies between the way these problems present them-

---

acting with objective factors); Adam Przeworski, *Capitalism and Social Democracy* (1985) (treating capitalism and socialism as indivisible social systems, subject to correction through tax and transfer policies).

<sup>7</sup> See, e.g., SACHS *supra* note 3.



selves in national and international settings.<sup>8</sup> The second stage of the analysis shows how and why the emerging view fails adequately to recognize these disanalogies. The emerging view would grant a measure of power to a centralized international technocracy that is politically illegitimate, practically unfeasible, and lacking in coherent intellectual foundation. The third step in the argument explores the implications of ineradicable conflict over economic institutions and economic-growth paths for the work of international institutions. The fourth path of the paper outlines the affirmative, more radical reconstruction of the Bretton Woods system that is implicit in my critical account.

The problem of selective turnaround and soft-budget constraints is omnipresent in contemporary economies. For one thing, as a matter of both law and practice, firms are rarely allowed to suffer instant death as soon as they touch some hypothetical red line; the wastage of wealth and welfare in such inexorable punishment would be intolerable. For another thing, the red line is itself indistinct and moveable, generated as it is out of contingent legal arrangements about property, bankruptcy, and relations among firms, banks, and central banks. We cannot answer the question: when and how to rescue firms, at what costs, and through which agents, by inferring rules and solutions from the abstract concept of market economy.<sup>9</sup> From the abstract concept we can infer only other equally empty and indeterminate abstractions. These are practical choices among competing interest and competing visions, and they are characteristically constrained by a very circumscribed understanding of alternative institutional arrangements.

---

<sup>8</sup> There is considerable confusion as how the principles of bankruptcy should translate to the case of sovereign borrowers, i.e. governments. In the international context there is little formal law covering state insolvency, and certainly no bankruptcy code. Therefore, the question is mostly a normative one – how should international practice, and specifically IMF practice, be arranged in view of the lessons of bankrupt law.

<sup>9</sup> The Neoliberal liberalization program needs the “International Chapter 11” to ease the pain of transition, but the very existence of domestic Chapter 11 in the U. S. already refutes the neoliberal understanding of market economy. The whole history of bankruptcy legislation in the United States indicates clearly that the “survival of the fittest” argument has failed. “Reorganization” (Chapter 11) in bankruptcy legislation, in contrast to “liquidation” (Chapter 7), cannot be understood without realizing that even “good” firm could go bankrupt in a “market” economy. The phenomenon of “good firms go bankrupt” poses a significant challenge to the “invisible hand” paradigm, and its far-reaching practical and theoretical implications are only begun to be studied. In fact, the original plan for the Bretton Woods System (IMF and World Bank) drafted by Keynes and White was to establish an international central bank which would serve as the “lender of last resort” rather than simply the enforcer of monetary supply target.



Whole national economies may also need turnaround. There are nevertheless substantial dissimilarities from the turnaround of firms within a national economy. The emerging view comes to grief on some of the implications of these differences. Until we do justice to these differences the comparison to domestic debtor-in-possession reorganization remains a metaphor in service of an illusion.

First, there is no uniform legal-institutional environment throughout the despite the orthodox hope in worldwide convergence toward the same institutions.<sup>10</sup> The effective forms and the social and economic consequences of turnaround differ according to the legal-institutional context in which it takes place.

Second, national turnaround is directly linked to the controversial and conflictual problems of alternative national development strategies. The history of the disputes over the conditionality agreements of the IMF is, among other things, a history of confrontations between clashing development strategies and between conflicting programs of institutional change.<sup>11</sup> The test of success for turnaround in governments and

<sup>10</sup> Some literatures represent theoretical challenges to economic orthodoxy. See, e.g., Pierre Bourdieu, *Introduction to the Economy of Linguistic Exchanges and Price Formation and the Anticipation of Profits*, in *Language and Symbolic Power* 37-42, 66-89 (John B. Thompson ed., Gino Raymond & Matthew Adamson trans., 1991); R. Kuttner, *The Poverty of Economics*, ATLANTIC (Feb.1985) (challenges neo-classical economic theory and describes the difficulties encountered by those alternative theories that have attempted to shift paradigm); *Alternatives to Economic Orthodoxy* (R. Albelda et al eds. 1988) (provides a quick description of "political economy," a neo-Marxist critique of neo-classical economics. Political economy is characterized as an interdisciplinary study of economic, political and social institutions and relations); A. Etzioni, *The Moral Dimension: Toward a New Economics* (alternative conception to the neoclassical economic paradigm's underlying premise of a "utilitarian-based, radical individualism" and distinguishes a new theory along the following three lines: 1. the source of valuation, from pleasure to pleasure and morality; 2. the source of decision-making, from rationality to values and emotion; 3. the decision-making unit, from the individual to the collectivity).

<sup>11</sup> See Jacques J. Polak, *The Changing Nature of IMF Conditionality* (1991). Polak, an economist, is another familiar character. Where Gold's (infra note) treatise was situated by the events following 1971 Polak's monograph is concerned with the "changing economic conditions" of the 1980s. Polak tells us that "[o]ne major change affecting the Fund's conditionalities has been the narrowing down of the Fund's clientele to its developing-country members." [1] "The resulting division of the Fund's membership into borrowers and nonborrowers has exacerbated the problem of conditionality by giving one group of members an overwhelming interest in making access easier, and the other group equal interest in making it more limited." [1-2] Yet Polak tells a peculiarly optimistic story of a move from "conditionality" to "program design." In the past, we



economies is far less clear and more contentious than the standard of success for turnaround in firms. The financial solvency that matters to governments is the one that brings a country to the threshold of a growth path it wants and can sustain.

The collapse of gold and fixed-parity pushed the IMF and, by extension, the whole connected system of Bretton Woods institutions deeper into an uncharted sea of ideological and practical conflicts.<sup>12</sup> It did so

---

find out, the developing countries were unwisely committed to policies of state intervention and import substitution. Under those conditions, the Fund's work was difficult. Far from being too harsh, it gave in to political considerations and prescribed programs that simply were too lax: "In a number of instances, especially in the early 1980s, the Fund underestimated the seriousness of countries' problems and thus failed to insist on programs of sufficient scope and severity." [64] Recognizing their failures, the developing countries are coming to their senses. They now "accept[ ]... the need for sound fiscal and monetary policies and of structural measures to raise productivity, for greater scope for market forces, and for reform in the machinery of state and the role of government." [63-64] In fact, "infrequently, letters of intent contain commitments put there only because the country wanted them." [66].

- 12 For a comprehensive treatment with detailed textual analysis of the key IMF documents, see Joseph Gold, *Legal Modes for the International Regulation of Exchange Rates*, 82 MICH. L. REV. 1533 (1984). Early on, Gold identifies the tension between national and international interests. The fact that exchange rates "are bound to lie at the center of economic relations between sovereign states" ... suggests that exchange rates should be subject to international agreement in some form if disorder is to be avoided... [1533] Nevertheless, the traditional view could be expressed by the Permanent Court of International Justice in 1929 in the simple assertion that "[i]t is indeed a generally accepted principle that a state is entitled to regulate its own currency." [Id.] See also Joseph Gold, *Developments in the International Monetary System, the International Monetary Fund, and the International Monetary Law, since 1971*, 174 *Recueil des Cours* 1107-365 (1982). This lengthy piece is his comprehensive treatise. It focuses on developments after gold (the metal) became less authoritative than "the relationship among the three concepts" – the "system," the "Fund," and the "law" – "has not been the subject of study hitherto." [121] These "three concepts" are to be discussed in relation to "three elements" – exchange rate, convertibility, and reserve assets. For most of the treatise, Gold engages the four corners of various documents of the system/fund/law – sort of detailed textual explication by the person who knows.

It is expected that Gold, the lawyer, and Polak (*supra* note), the economist, give us rather different images of the IMF. Yet the differences may not be what we expect. The lawyer's analysis of documents central to the development of the international monetary system/fund/law presents the field as a formal, doctrinal space. His close textual study not so much represents the field as mimics it. In contrast, the economist seems more contextual, more concerned with politics and realignment. But the images might also be reversed. Gold tells us about the tension between international authority and state autonomy in monetary matter, with "[t]he balance between the authority of the Fund and of members over the exchange rates for their currencies has shifted radically in favor of members." [33] Meanwhile the harmonization of Fund imperatives and member interests.



under the barely concealed disguise of alleged technical necessities. The full-scale and overt assumption of the turnaround role by the IMF and the World Bank would aggravate the conflicts while reinforcing the powers of the international economic technocracy, and of the interests and ideas to which it has bound its fate.

Consider the infirmities of such a development. First, the centralized rescue machinery would enjoy little political legitimacy. It would be conducted by unelected officials under bureaucratic control. It would rely heavily upon big-power interests and controversial political-economic doctrines.

Second, it would be fiercely contested, and its operations would likely become in spades what even the conditionality agreements of the IMF have already often been: the subject of bitter quarrels within national economies. The contest would probably be most ardent in the large marginalized countries – China, Russia, India, Indonesia, Brazil, Turkey – according to the vicissitudes of national politics in each of them.

Third, this reconstructive mission would rest upon shaky intellectual foundations. It would represent a form of bureaucratic interventionism in real markets. Yet it would be a peculiarly truncated and arrested interventionism, given the centralized, controversial, and relatively unaccountable character of the institutions serving as its instruments.

The argument about the controversial character of the turnaround and development work of the Bretton Woods organizations requires closer attention. Two theses are central to this argument. The first thesis is that conflict over economic institutions and economic-growth paths is ineradicable. The second thesis is that a unitary structure of international help hostage to national submission to a partisan program in this conflict. These theses have far-reaching and misunderstood implications for economic theory, for practical economic policy, and for the legal structure of the world economy. We need to explore the theses and their implications further before we can understand what needs to be done. The exploration takes us through a brief detour in some conundra of dominant theory and policy – the neoliberal project – its critics and contemporary ideas of market economy – alternatives.

#### IV. The “Washington Consensus”

Today, thinking about development in much of the world has come to



be dominated by what is often labeled the neoliberal project or the "Washington consensus." The neoliberal project contends four areas typically viewed as a prepackaged institutional content: macroeconomic stabilization, liberalization or marketization, privatization, and social safety net.<sup>13</sup> It is the program committed to orthodox macroeconomic stabilization, which means the process of creating a stable value of national currency both in internal terms that is ending in a high domestic price inflation and stabilizing the international value of the national currency. The second content of the project is liberalization or marketization of the economy which means removing government interventions in the market, particularly on international trade and on entry of firms into particular sectors of the domestic economy. Third part of the project is privatization, understood both more narrowly as the withdrawal of government from production and more generally as the adoption of standard Western private law. The second and third components of the Washington consensus, liberalization and privatization, provide the key to the program they invoke but do not describe a set of real institutions of property and contract and forms of partnership realizations between government and private producers, which are claimed by the defenders of this neoliberal project to be the necessary and natural form of the market economy. Finally, the fourth part of the project is the social safety net, namely tax-and transfer redistribution, the deployment of compensatory social policies, designed to contract the unequalizing effects of this standard package because the neoliberal project is compatible with the strengths of extreme inequality.

At present, the neoliberal project imposes unnecessary and unwarranted restraints upon growth. The key problem is the dynamic of

---

<sup>13</sup> See, World Bank, *World Development Report 1991: The Challenge of Development* (1991). A terrific critical inquiry into the IMF and World Bank prescription see, Thomas J. Biersteker, *Reducing the Role of the State in the Economy: A Conceptual Exploration of IMF and World Bank Prescriptions*, 34 *INT'L STUD. Q.* 477-92 (1990). Biersteker starts at the right place – "In nearly every developing country in the world today, short-term stabilization measures, structural adjustment programs, liberalization efforts, and economic reforms are being considered, attempted, or adopted... [N]early all entail a reduced role for the state in the economy...and greater reliance on market mechanisms..."[477 (opening paragraph)] Biersteker then starts causing trouble – "However, despite all the evident enthusiasms for it, there has been relatively little discussion of precisely what it means to reduce the role of the state in the economy."[478] before examining precisely what the IMF and the World Bank mean, Biersteker lays out six forms of state intervention (influence, regulation, mediation, distribution, production, planning), thus destabilizing any facile characterization of "the role of the state in the economy."



growth. Let me develop my critics of neoliberal project more theoretically in two ideas. The first idea is that the market economy can assume many different legal institutional forms. The degree of variation in the existing market economies, although considerable and radically understated by the conventional economic ideas is only a subset of a much larger realm of possible forms. The first idea, the idea of contingencies and variation can be developed in two directions. One direction is to claim that the practical imperatives of economic growth and worldwide competition can always be met in different ways by different sets of economic institutions. The other is that the focus of ideological conflicts and institutional innovation in the contemporary world is shifting. The old conflicts between statism and privatism, between the command economy and the market economy is in the process of being replaced by a new conflict among the alternative institutional forms of economic and political pluralism. The forms of that now prevail in the industrialized countries should be seen as only a small part of a much larger and more interesting field of institutional possibilities.

The second idea is that there are two sets of motives that would lead us to explore alternative institutional forms of a market economy. The first set of reason is that the developing countries today will fail at their efforts to resolve their internal structural problems and to join the world economy on more favorable terms is a merely import and imitate the economic institutions of the developed countries. The second reason is that contrary to what neoliberal economists generally claim these dominant institutions shape and restrict the other possibility of social and cultural life. The desire to have a different civilization, a distinct form of life, produces a second motive to resist the practices of imitation and transfer.

### **A) Criticisms to the "Washington Consensus"**

I want to state three general sets of criticisms to the neoliberal projects. However, before beginning to enumerate those criticisms, let me identify a common ground. Each of these identifications of common ground rather than being an acceptance for the dominant view, will immediately turn into a criticism.

The first common ground is that in repudiating the neoliberal project, we need not and should not commit ourselves to a state oriented merging of economic policy. Coercive and collusive forms of political autonomy between bureaucratic and entrepreneurial elites share something important in common with the neoliberal ideas: the classic logic of property



rights. What these coercive and collusive forms of political autonomy fail to grant the essential relationship between innovation and cooperation in economic life is that it holds innovation hostage to the self-interest of economic or political beings.

The second area of common ground is the recognition of the significance of imitation and transfer. The strong view is that economies would spontaneously converge to necessary institutional programs. This view creates a space for catching up exception that may be granted to the developing countries. And it makes it possible to add to this catching up exemption and exemption for the successful catching up, for the rich, who are already there and who may give themselves the luxury of institutional innovation. However, there is a problem. Unless these two exceptions, the catching up and the successful exemption, are exclusively restricted, the view of institutional convergence becomes either trivial or incoherent. But if these two exceptions are not restricted severely, the view degenerates into an institutional dogmatism and determinant.

Now that I have described the common ground I can begin to develop my criticisms. The first criticism is the idea of an internal instability or like a political instability in the neoliberal context. This program cannot adequately deal with the relation between economics and politics except by devices that render increasingly suspect. Here is a first presentation of the idea. The neoliberal project is compatible with the strengths of extreme inequality. Only if it is receded for a company by goals equalizing reforms such as agrarian reform, implemented by a state that is not itself the product of the neoliberal program. In the absence of this state and of these reforms, in the absence of a power in society that is able to resist bureaucratic interests, the execution of the neoliberal project regularly produces concentration of power and wealth. It regularly survives the society intact. If there is a mass democracy, we exclude it and this disfavored part of society strikes back with politics. The movements and leaders who execute populist economic policies, the policies of cheap money, of subsidies and inflationary finance, economic orthodoxy and economic populism are secret partners in this historical deal. The populism regularly interrupts the character of neoliberalism until it runs itself and requires reassertion of economic orthodoxy.

There are two solutions to this internal instability, this perverse relation between economics and politics. The first solution is dictatorship. This is not only sacrifices political democracy, but produces an apparatus that is able to constrain and distort the possibilities of growth for the



sake of its self interest in the maintenance of political and economic power. The second solution is tax and transfer, so-called the social safety net. However, tax and transfer has never in any country, rich or poor, produced massive and secure redistribution. In the rich countries, the redistributed efforts of tax and transfer remain hostage to the business cycle, the tension between commitments to efficiency, but in the developing countries this problem is much more formidable.

Imagine for the sake of simplicity of a society divided into two worlds, into two parts: the favored economy and the disfavored economy; the first economy and the second economy. The part that has a deal with the state and the part that has only a tenuous access to capital, technology, and markets. The majority of the working people in developing countries live in that second world. The redistribution from the first world to the second would have to be enormous before it could begin to deal with their problems, and long before reaching that necessary dimension, it would begin to disorganize. Tax and transfer as a social safety net can begin to work only if it operates in concert with a second unspoken element: the political demobilization of the populace, secured from a political institutions that restrict their civic engagement and their social organization, a kind of attenuated version of the other solution: dictatorship. This relation between economics and politics can be fixed only if there is a logic of growth that produces equality rather than requiring the after fact compensation of correction of tax and transfer. And this equalizing style of growth must be sustained by both an activist government and an organized populace and the relation between them.

I advance to my second criticism, moving from the periphery closer to the center of the view. The neoliberal project imposes unnecessary and unwarranted restraints upon growth. One encounters often a distinction between static and dynamic efficiency and then one comes across the same problem in a different vocabulary in the neoliberal view that explore failures of growth after macroeconomic stabilization.

I come to third criticism. The third criticism addresses directly the conception of institutional necessity and convergence that lies at the heart of the neoliberal view. At the heart of this dispute and my third criticism is a contrast between two ideas of institutional convergence. This is an idea of persistent convergence shaped by functional necessity and constraint. The contrasting picture starts when the idea that the same constraints and the same imperatives can only be met in different ways. There is indeed a force vying for convergence, a kind of second



order necessity that the dominant institutions especially established in the rich and powerful countries may invoke. They are stretched not only in styles of organization and technology but in the ruling doctrines of an age. But any given set of economic institutions represents a ramschakle and transitory compromise between the driving force of experimentalism and the contrasting power of dominant interest.

In its present state, trade theory of the neoliberal approach provides little guidance as to the role of trade policy and trade strategy in promoting growth. The neoliberal approach instead relies on ad hoc factors to make the link between freer markets and higher growth. Opening the economy to international competitive pressures assists technical change, economies of scale, and indigenous entrepreneurship. It is argued that the liberalization of trade may itself be facilitated by the circumstances conducive to rapid growth, this beneficial consequence of freer trade can continue with priority given adapting new technological changes.<sup>14</sup> However, in certain conditions with real world analogies freer trade may not promote technical change.<sup>15</sup> It is further argued that in conditions of increasing returns to scale and imperfect world markets, a country's growth can be faster if it restricts trade to some degree.<sup>16</sup> Revisionist

---

<sup>14</sup> For "free traders" in the literature see, e.g., J. Bhagwati, *Is Free Trade Passe After All?*, in *Political Economy and International Economics*, (Bhagwati ed 1991) [written almost as a response to Krugman (below). Free trade, as a principle, has not lost its vitality. There may be a need for a more nuanced approach, but managed trade/new trade theory is certainly not the answer]; J. Bhagwati, *Threats to the World Trading System*, *The World Economy*, (July 1992) (again, responds to the New Trade theorists. Answer to imperfect competition is a stronger GATT. A nice quick response to managed traders); M. Levinson, *Asking for Protection is Asking for Trouble*, *HARV. BUS. REV.* (1987) (U.S. companies seeking relief thorough protection from the International Trade Commission are shooting themselves in the feet. Global trade relations are too complicated to be dealt with through simplistic, piece-by-piece protectionist measures. Companies are frequently the victims of their own such efforts); R. Lawrence & R. Litan, *Why Protectionism Doesn't Pay*, *HARV. BUS. REV.* (1987) (addresses two protectionist arguments: 1. high-wage U.S. can't compete with low-wage countries; 2. U.S. must retaliate against unfair, nationalistic economic policies of competitors. Answer is not protectionism, but more free trade, with reduced federal spending and better implementation of GATT escape clauses); and finally see, I. Stelzer, *The New Protectionism: Protectionism Doesn't Save Jobs or Raise Anyone's Living Standard*, *National Review* (1992) (good, clear, classic free trade argument. Doesn't add much to above articles, but the language is a little more accessible and the perspective a little broader).

<sup>15</sup> See Arman Kirim, *Technology and Exports: The Case of the Turkish Manufacturing Industries*, 18 *World Development* 1351 (1992).

<sup>16</sup> Paul Krugman concludes that "the new thinking about trade...makes one thing clear:



trade theory begins with the fact that today intra-industry trade among the major industrial countries is almost as large as inter industry trade. In intra-industry trade, because products are similar, traditional notions of comparative advantage as the basis for trade do not apply. To the extent there is comparative advantage in high-technology sectors, it may be the product of government policies, rather than natural endowments; that is, comparative advantage may be artificial. Economies of scale are crucial in intra-industry trade; firms that can dominate a large market first can be more efficient than later entrants.<sup>17</sup> A trade and technology policy based upon these ideas would have a government deliberately promote national comparative advantage by subsidizing technological development as well as such conventional means as upgrading infrastructure, improving education, and providing a sound macroeconomic climate.<sup>18</sup> At the same time, the government could promote economies of scale among its nation's firms by decreasing domestic competition, protecting import markets and promoting exports through subsidies, government services to exporters, and entering unusual degree of partnerships with private firms.

### B) Alternatives to the "Washington Consensus"

North East Asia (NEA) economic rise has presented some alternatives to neoliberal project.<sup>19</sup> Many analysts have tried to explain the success of NEA capitalism as the result of adherence to the conventional

---

the idealized theoretical model on which the classical case for free trade is based will not serve us anymore. The world is more complex than that, and there is no question that the complexities do open, in principle, the possibility of successful activist trade or industrial policy." Paul Krugman, *Strategic Trade Policy and the New International Economics* (1986) p.15.

<sup>17</sup> See, e.g., Paul R. Krugman, *Is Free Trade Passe?*, 1 *Economic Perspectives* 131 (1987); see also Elhanan Helpman and Paul R. Krugman, *Market Structure and Foreign Trade* (1985).

<sup>18</sup> F. M. Scherer states fourteen "trade-enhancing national strategies" for the U.S. trade and industry policy: commodity export subsidies; export financing; government favors tied to export performance; learning curve pricing; advantages from a protected home market; coercive market-opening measures; cartel information and dumping; coordination of industry investment; provision of cheap raw materials; subsidizing R&D; intellectual property protection; subsidizing worker education; trade-influencing macroeconomic policies; and law enforcement. See F. M. Scherer and Richard S Belous, *Unfinished Tasks: the New International Trade Theory and the Post-Uruguay Round Challenge* (1994).

<sup>19</sup> See, e.g., Alice H. Amsden, *Asia's Industrial Revolution: "Late Industrialization" on the Rim*, *Dissent* 324 (Summer 1993).



neoliberal prescription of minimal government intervention in the market.<sup>20</sup> Others have sought the explanation in "Confucian culture."<sup>21</sup> The most persuasive accounts, however, stress *state structure* as an important factor in NEA capitalist success.<sup>22</sup> The phenomenon of "Asian late industrial development" should be understood as a process in which states have played a strategic role in taming domestic and international market forces and harnessing them to national ends. The market is guided by conception of long-term national rationality of investment formulated by the government.<sup>23</sup> It is the "synergy" between the state and the market which provides the basis for outstanding development experience.<sup>24</sup>

Underlying these political and institutional requirements for effective state intervention in the form of strategic industrial policy are the

- 
- 20 Leading examples of neoclassical development theory as applied to the East Asian context include Bela Blassa, *The Newly Industrializing Countries in the World Economy* (1981); See also Walter Gareson, ed., *Foreign Trade and Investment: Development in the Newly Industrializing Asian Economies* (1985).
- 21 See, e.g., Ronald P. Dore, *Taking Japan Seriously: A Confucian Perspective on Leading Economic Issues*, (1987).
- 22 As outstanding examples of a growing literature-which seeks to refute the neoliberal vision of East Asian growth see Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (1989); Frederic C. Deyo ed., *The Political Economy of the New Asian Industrialism* (1987).
- 23 See WADE, *Governing the Market*, pp. 5-6.
- 24 Finally, the most recent work which concludes that East Asian economic success has little to do with government is World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Policy Research Report (1993). Its conclusion is that the high performing Asian economies owe much of their growth to honoring the Bank's "market-friendly approach" and "getting the basics (a twist on prices) right." The report acknowledges that "in most of the East Asian countries, in one form or another, the government intervened-systematically and through multiple channels" (p. 5). Thus, the basics cannot tell most of the story, and the effect of government intervention on the "supernumerary" growth rate cannot be determined, other developing countries are advised to forget intervention and focus on the fundamentals. However, the *East Asian Miracle Report* reflect the Bank's internal conflict. On the one hand, the Report widens the scope of the debate on the role of the state in economic development, a debate muffled by the neoliberal "Washington consensus." Most chapters indicate a thorough understanding on the part of Bank staffers of East Asian institutions and how deviations from the free market model induced development. On the other hand, because the Report cannot prove its own conclusion, it is quintessentially political and ideological. In details of critics of the Report see Alice H. Amsden, *Why Isn't the Whole World Experimenting with the East Asian Model to Develop?: Review of the East Asian Miracle*, 22 *World Development* 627 (1994); see also Jene Kwon, *The East Asia Challenge to Neoclassical Orthodoxy*, 22 *World Development* 635 (1994).



two central features associated with the developmental state,<sup>25</sup> namely, the unusual degrees of bureaucratic autonomy and government-private producer cooperation. The coexistence of these conditions allows the state and the bureaucratic elites to develop independent national goals and, in the subsequent state, to translate these broad national goals into effective policy action.<sup>26</sup> In fact, in the absence of bureaucratic autonomy government-private producer cooperation easily degenerates into situations in which state goals are directly reducible to private interests. Latin American countries are striking examples of such political economies, in which close government-private firms cooperation has materialized in the context of "weak states" which lack autonomy from powerful groups in society.<sup>27</sup> In Latin America, the state has been characterized as relatively weak, with development obstructed and distorted by large landholders and multinational corporations.<sup>28</sup>

- 
- <sup>25</sup> Preconcept of the developmental state was introduced in Chalmers Johnson, *Miti and the Japanese Miracle* (1982). In Johnson's model of the developmental state, the bureaucracy directing economic development is protected from all but the most powerful interest groups so that it can set and achieve long-range industrial policies. On the other hand, all the East Asian developmental states, according to Johnson, depend on public-private cooperation between the managers of the state and managers of private firms. This cooperation is achieved through innumerable, continuously operating forums for coordinating views and investment plans, sharing international commercial intelligence, making adjustments to conform to the business cycle or other changes in the economic environment, deciding on the new industries needed in order to maintain international competitive ability. the resulting conservative coalition between the state and big private firm provides the social foundation for industrial policy.
- <sup>26</sup> See, e.g., *Developmental States in East Asia* (Gordon White ed., 1988); see also Charles Johnson, *East Asia, in Power, Purpose, and Collective Action: Economic Strategies in Socialist States* (Ellen Comisso and Laura Tyson eds., 1986).
- <sup>27</sup> In this regard, some recent studies of comparative economic performance in East Asia and Latin America present very interesting observations pertaining to inter country differences in the societal framework of business activity. In particular see, R. Jenkins, *The Political Economy of Industrialization: A Comparison of Latin American and East Asian Newly Industrializing Countries*, 22 *Development and Change* (1991); G. Gereffi, *Big Business and the State, in Manufacturing Miracles: Paths of Industrialization*, in *Latin America and East Asia* (G. Gereffi and D. L. Wyman, eds., 1990); see also G. Ranis and D. J. C. H. FEI, *Development Economics: What Next?*, in *The State of Development Economics: Progress and Perspectives*, (Gustav Ranis and T. P. Schultz eds., 1990).
- <sup>28</sup> See Fernando H. Cardoso and Enzo Faletto, *Dependency and Development in Latin America*, (Marjory M. Urquidi, trans., 1978); see also Peter B. Evans, *Class, State, and Dependence in East Asia: Lessons for Latin Americanist*, in *The Political Economy of the New Asian Industrialism*, (Frederic C. Deyo, ed., 1987).



As we have seen a familiar and frustrating set of debates in political economy develops *in sum* along the following lines. Selective industrial policy and protection for emerging industries may theoretically be better than dogmatic and flexible free trade.<sup>29</sup> They may enable countries to escape an unfavorable and long-lasting niche in what is supposedly a single, inescapably evolutionary path toward more labor. The trouble is that in practice any attempt at selective industrial and trade policy creates opportunities for collusion and rent-seeking<sup>30</sup> as well as for sheer bureaucratic dogmatism. So the activist solution that may be preferable in principle rarely turns out to be best in practice.

These discussions in turn have a strong family resemblance to a second set of arguments in political economy: the attractions of facilities to risk-bearing entrepreneurial activity such as the limited-liability corporation, or the availability of debtor-in-possession reorganization as an alternative to outright bankruptcy, must be weighed against the dangers of "moral hazard" – of the inducement to reckless and inadequately disciplined economic behavior all such facilities create.

We lack a formulaic device by which to distinguish beforehand and in general terms the good risks from the bad ones, or the hero of Schumpeterian entrepreneurialism from the villain of moral hazard. Consequently, we have no escape from the need to make rough-and-ready compromises, informed by our sense of the most promising path of

---

<sup>29</sup> See, e.g., James Brander, *Rationales for Strategic Trade and Industrial Policy* in *Strategic Trade Policy and the New International Economics* 23-46 (Paul Krugman ed., 1986). Classic essay on strategic trade first presented two years before the formal launch of the Uruguay Round. "Instead of insisting on perfect competition and ruling out learning by doing, economies of scale, entry barriers, high profit rates, R&D races, and other phenomena normally excluded by international trade theory, the arguments presented here draw on a body of research that focuses explicitly on these phenomena." [43]. See also Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (1990); Paul Krugman, *Does the New Trade Theory Require a New Trade Policy?*, *The World Economy* (July 1992) (changed paradigm — imperfect markets. Excellent summary of "New Trade" theorists, where they've been and where they're going).

<sup>30</sup> There is an established literature on rent-seeking. See, e.g., Anne Krugger, *The Political Economy of the Rent-Seeking Society*, 64 *American Economic Review* 291 (June 1974); Jagdish Bhagwati, *Directly Unproductive, Profit-Seeking (DUP) Activities*, *Journal of Political Economy* 90 (1982). For various perspectives on rent-seeking and associated "new neoclassical political economy" see also James Buchanan Et Al EDS., *Toward a Theory of the Rent-Seeking Society* (1980); and David Colander, ED., *Neoclassical Political Economy: The Analysis of Rent-Seeking and Dup Activities* (1984).



institutional development. We must choose the arrangements most hospitable to the whole form of life, or ideal of civilization, we seek to sustain as well as most conducive to economic growth and innovation. We cannot disentangle the design of economic institutions from the institutional character of society as a whole.

This conclusion sheds a revealing light upon the first set of discussions. The retreat from activism in the strategic coordination among firms, or between firms and governments, to the safety of the practical second best of an arm's-length relation among firms or between firms and governments is neither a natural nor an eternal prescription. It is simply the consequence of the choices we must make among the institutional arrangements embodying activism, selective policy, or strategic coordination on one side and arm's-length market relations on the other. In every such discussion we come in the end to the point at which we must ask whether we must indeed choose among the available forms of market relations and of strategic coordination or whether, instead, we can broaden the repertory of available institutional arrangements.

Thus, for example, the susceptibility of selective trade policy to collusive rent-seeking and economic dogmatism is not an historical constant. It depends upon the institutional tools of the activism. Some such devices may be more decentralized and participatory, and more subject to democratic accountability and competitive pressure, than others. We may have in our minds the picture of a central bureaucracy, like a Ministry of Foreign Trade or a Ministry of Industry, as the agent of the strategic coordination. However, other much less centralized arrangements may be practicable. In fact, even the existing NEA economies; supposedly the most successful practitioners of strategic coordination, differ significantly in the extent to which their methods of trade and industrial policy are elitist and collusive, disfavoring the happy serendipity of market-driven experimentalism.<sup>31</sup>

---

<sup>31</sup> My discussion has hitherto focused on the essential unity of the East Asian developmental states. Yet a closer analysis suggests the presence of striking differences among the individual variants of the developmental state. The Japanese developmental state in the postwar period, for example, has differed from its South Korean and Taiwanese counterparts in that it has been able to coexist with democratic political institutions. Important contrasts may also be identified between the South Korean and Taiwanese models. Close cooperation and interaction among politicians, bureaucrats, and business elites have been the foundation stone of the developmental state. Yet, compared to Japan and Korea, Taiwan has been characterized by more of a cleavage between the government and private sector. Given the weak institutionalised



The example of partnership between government and private firms presented by NEA to the other developing countries remains a flawed model; it must be corrected and reinvented before it is imitated. All of these distinguishing characteristics of NEA successful economic performance took place on the basis of authoritarian hard state.<sup>32</sup> Political authoritarian offers a shortcut to the hardness of the state. However, the instrumentalities of the "hard developmental state," which may have helped the Japanese, South Korean, and Taiwanese economies during an earlier phase of catch-up industrialization, is of diminishing use in maturing economies seeking to develop indigenous capacities in the area of technological innovation. Authoritarianism-which, by suppressing civil society, may have promoted development in NICs of NEA-may be a victim of its own success, in producing educated, middle-class populations demanding political rights along with distortion the range of eco-

---

links between government and business, industrial policy in Taiwan has been implemented through a rigorous but very different type of policy network linking the central economic bureaus with public enterprises, public banks, public research and service organizations, universities, foreign multinationals with operations in Taiwan, consulting firms, and some "special status" private manufacturing companies linked to the party, military, and economic ministries. The different policy network which prevailed in Taiwan may also be explained by the relative absence of a limited number of extremely large conglomerates, characteristic of Japan and South Korea. One example of this study see, e.g., Dwight H. Perkins, *There are at Least Three Models of East Asian Development*, 22 *World Development* 655 (1994).

Also, in the context of innovation systems, South Korea and Taiwan have quite different models. Aside from their strong support of education, high levels of investment in plant and equipment, and their pressure on firms to go for exports, these two countries have different innovation systems. In one, Taiwan, government research laboratories have been an important source of industrial technology; in the other, South Korea, they have not, at least until recently. South Korea has encouraged the growth of large industrial conglomerates, and resisted foreign ownership; Taiwan has not especially encouraged the growth of large firms and has admitted foreign firms selectively. But both have been successful in building innovative competitive industry based on foreign created technologies and other latecomers are trying to learn from their experience. For more information on national innovation systems see *generally* Richard R. Nelson ed., *National Innovation Systems: A Comparative Analysis*, (1993).

<sup>32</sup> Strong state is based on autonomy and capacity. State autonomy refers to the relative autonomy of state officials from dominant economic classes and social groups, which allows for effective implementation of policies. See Theda Skocpol, *Bringing the State Back in: Strategies of Analysis in Current Research*, pp. 9-11; Dietrich Rueschemeyer and Peter B. Evans, *the State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention*, pp. 46-50, in *Bringing the State Back In*, (Peter B. Evans et al. eds., 1985). East Asian states are strong because they are autonomous from classes and groups, and relatively sophisticated government bureaucracies were in place when industrialization began.



conomic and democratic experimentalism. For these reasons, in both the analysis and promotion of development, it is time to bring politics back in.

A national development strategy capable of working out the partnership between business and government requires a hard state—a state able to formulate and to implement policy with a substantial measure of independence from interests of entrepreneurial and bureaucratic elites. It is, nevertheless, incompatible with hardness in the form of authoritarianism. Democratizing the partnership between firms and governments is a necessary condition to make the example of the NEA economic success usable for the developing countries of the contemporary world.<sup>33</sup> The institutional form and the economic content of the partnership must be made more decentralized and experimentalist; less vulnerable to its characteristic defects of rent-seeking, dogmatism, and subordination of growth to stability.

The developing countries now must rebel the fatalism of imitated institutions and they must innovate the institutional forms of the state and of the economy with more fully democratized and experimentalist forms than rich western countries. To these ends, they must develop the partnership between governments and firms while giving to this partnership decentralized and experimentalist forms that keep it from degenerating into collusion between business elites and political-bureaucratic elites. The decentralized and experimentalist forms of the partnership between governments and firms need the establishment of social institutions intermediate between governments and firms and independent from both. They also need the establishment of progressive dismemberment of traditional property rights and the vesting of the component elements of these rights in different types of rightholders.

An opening of the government-business partnership exercises a full democratizing and experimentalist influence only if it also succeeds in bridging the social and economic gap of dualism. The institutional innovations required to reach this goal may include the joining of many firms into competitive-cooperative networks; the development of mixed public-

---

<sup>33</sup> Once again the breakdown of authoritarian regimes and ensuing democratic consolidation is an important one among social scientists. For such examples see *Democracy in Developing Countries: Asia*, (Larry Diamond et al. eds., 1989); *Transitions from Authoritarian Rule*, (Guillermo O'Donnell et al. eds., 1986); See also Dietrich Rueschemeyer, Evelyne H. Stephens, and John D. Stephens, *Capitalist Development and Democracy*, (1992).



private forms of financial and technological support to these networks, undertaken by organizations with considerable independence from government and intimate links to the firms with which they deal; and, later, the invention of alternatives to traditional, full-fledged and unified property rights.

The idea of a state both hard and radically democratic can be achieved only by making ourselves free from inadequate and impoverished traditional arrangements and reimagining alternative institutions in order to replace them. One key condition for reconciling hardness and democracy is a decisive break with constitutional styles favorable to impasse among branches of government. Another condition is a sustained political mobilization of the citizenry. Political mobilization in a society is highly responsive to particular rules and practices, such as those governing the electoral regime, use of money in politics, and the access to the means of mass communications—for example, the emergence of an independent banking system that could play a role in financing a variety of political activities. The coexistence of a constitutional style congenial to the quickening of structural reform, through the accelerated resolution of impasse, with an institutionalised heightening of political mobilization enables people to use the indispensable tool of transformative politics: the alliance of change sponsored from above with change undertaken from below. Thus, one arrives at the question of setting up new institutions on different foundations.

We can now return to the suggestion that the Bretton Woods organizations perform the role of rescuing economies in trouble while promoting economic development around the world. How are they to accomplish this work without taking sides in the all-important quarrels about alternative economic institutions and alternative trajectories of economic growth? The staffs of the multilateral organizations, like the academic and bureaucratic elites of the leading powers, believe there are no sides to be taken because there is no real contest. The most explicit and aggressive expression of this belief is the idea that conformity to the time-tested institutions of the rich economies will, together with the dynamic effects of incorporation into the world trading system, lift all countries up. The doctrine derives much of its persuasive force from the near vacuity with which it defines the legal rules of the market economy as well as from a triumphalist reading of the present moment in world history. Its message is: we need only a final push beyond the gateway to global consensus and convergence.



According to this view, the IMF should come to the rescue of governments in financial trouble so long as they stay on the right path: the path of the convergence and the consensus. The comparison to domestic turnaround soon reveals its more tangible meaning: the IMF should assume more explicitly its responsibility of satisfying the conditions for the worldwide mobility of capital by preventing balance-of-payments crises that threaten to get in the way. Its new companion agency, the World Trade Organization, should undertake the parallel work of policing the rules for free-trade in goods and services. The World Bank can carry out the subsidiary job of helping countries develop the physical, human, and organizational instruments of development by proven means, directed to a well-known result.

A first sign of trouble is that even the votaries of the "Washington consensus" are liable to disagree. For example, the IMF staff has resisted the advocacy of fixed exchange rates, a mainstay of the exchange-rate anchored stabilizations. When we expand the scope of our vision further, we soon begin to realize that the effort to make the world safe for globally mobile capital is fraught with conflict and controversy. In the here and now there is the debate, accelerated by the Mexican crisis of December 1994-January 1995, about the wisdom of dependence on flows of speculative and volatile foreign capital. In the longer future there is the suppressed, explosive paradox of a world economy in which capital becomes hypermobile while labor remains imprisoned in the nation-state or in regional blocks of relatively similar nation-states. The pride of such a system of free trade is to remain free by half. The half left unfree is sure to strike back.

## **V. Two Great Transformations in the World Economy**

Today in the world economy two great transformations and contests are in their youth. To understand them and to understand how they speak to each other is to grasp the limits of convergence thesis. It is also to see that there is no uncontroversial program of worldwide economic growth and coordination of which the Bretton Woods organizations could be the agents.

The first dispute concerns the growth paths of the developing countries. Against the operative orthodoxies of the present day, there emerges the desire to find a growth plan relying primary upon internal saving and investment; upholding the possibility of active partnerships between gov-



ernment and business in the pursuit of a national development strategy; and dispensing with costly crutch of an overvalued, fixed exchange rate as the condition of monetary stability. Such an alternative would renounce the attempt to escape politics. It would provide a minimal basis on which to confront the sources of inequality and instability in economic and social dualism, and thus to avoid a perennial and destructive pendular swing between economic orthodoxy and economic populism. The attractions and prospects of such an alternative depend upon our success in giving to governmental activism and to the partnership between governments and firms forms that are more decentralized and diverse, and more directly subject to the double pressures of market competition and democratic accountability, than those we have so far associated with industrial and trade policy.

The other great change and debate centres on the process of industrial reorganization now underway in the most successful regions and sectors of the advanced economies. Many forces help contribute to this set of debates and experiences. One of these forces is the changing international division of labor in the context of technological evolution. Additional forms of mass production have been located in the top tier of developing economies with the support of relatively lower paid labor. This fact, along with other reasons, makes this traditional form of production less viable in the advanced economies.<sup>34</sup> Consequently, they were pressured to search for technological opportunities and reorganize the practices of industrial production in advanced economies.<sup>35</sup> Now, a conservative managerial program of industrial renovation offers a diagnosis of the problem and proposes a solution. The basic themes of this conservative managerial program of industrial renovation are first that

---

<sup>34</sup> On the general theories of the firm see, e.g., Neil Fligstein, *The Transformation of Corporate Control*, (1990); *Foundations of Corporate Law* (Roberto Romano ed., 1993); Oliver Hart, *An Economist's Perspective on the Theory of the Firm*, 89 *COL. L. R.* 1757 (1989). Especially functionalist theories of the firm and their critiques see, e.g., Alfred Chandler, *The Visible Hand: The Managerial Revolution in American Business*, (1977); Henry Hansmann, *Ownership of the Firm*, 2 *Journal of Law, Economics, and Organization* 267 (1988); Michael Jensen, *Eclipse of the Public Corporation*, *Harvard Business Review* 61 (September-October 1989); Michael Jensen, *The Modern Industrial Revolution, Exit and the Failure of Internal Control Systems*, *The Journal of Finance* 1 (May 1993).

<sup>35</sup> For the functionalist theory of the standard firm and its critique see Mark Roe, *A Political Theory of American Corporate Finance*, 91 *COL. L. R.* 10 (1991); Michael E. Porter, *Capital Choices: Changing the Way America Invests in Industry*; Mark J. Roe, *A Political Theory of American Corporate Finance*, 91 *Columbia L. Rev.* 10 (1991); and William H. Simon, *Social-Republican Property*, 38 *Ucla L. Rev.* 1335 (1991).



the existing industrial system is too rigid, composed of too many constraints on economic innovation and the mobility of capital. Second, the existing industrial system is conflictual and in particular generates too much conflict between workers, managers and owners.<sup>36</sup> The program of conservative renovation wants first to make capital more mobile and increase the powers of the present owner or manager of capital, but second, to heighten the level of cooperation in the work place by making work into teamwork. These two themes in the conservative program of industrial renovation are at least potentially in conflict: cooperation at work and hypermobility of capital. The basic task of this managerial program is to manage this conflict by devices such as the division of the work force into two tiers: a tier of stable organized workers who are the beneficiaries of cooperation and the second tier (subcontract, etc.) who can be the instrument of hypermobility of capital.

Now, the traditional or conservative social democratic response to this conservative program of managerial renovation is exclusive and conservative strategies for the defence of class interests and thus exemplifies the more general thesis of contemporary social democracies and conservative movements. First, it wants to transform the present position of its constituency of workers into vested rights. So among these characteristics are claims for a greater amount of job tenure, or rights against, for example, plant workers. Second, it wants to multiply the recognition of the stakes and stakeholders in firms. According to this program one should not think of just shareholders and effective owners but the workers or consumers or other effective public should also be recognized to have stakes in quasi character. As an economic program, it is a social democratic response to the managerial program of industrial renovation that is seen to threaten the economic system with paralyses and rigidity and imposing vested rights and a system of economic checks and balances upon experimentalism and economic innovation. Generally, for social consequences, it seems to reinforce the existing set of group division or segmentation of the labor force. Each group digs deeper into its present niche and attempts to defend it against the destabilizing forces of economic innovation and capital mobility. The risk of the social democratic response is the same risk of the problems of rigidity and conflict that initially motivated the managerial program of industrial renovation.

The recognition of the infirmity of this social democratic response

---

<sup>36</sup> See Mark Roe, *Strong Managers and Weak Owners: The Political Roots of American Corporate Finance*, (1994).



can, in turn, lead us to become interested in the possibility of alternative responses.<sup>37</sup> These would be radically democratic and at the same time more congenial to economic innovation and experimentalism. In one alternative response, one might say, the objective should be not to dig into the present niches of the economic system for instability but rather to strengthen the economic and cultural equipment of the individual worker with social endowment. Therefore, with this social endowment, s/he can drive safely in the niche of economic innovation and instability. Although this strengthening of social endowment of the individual worker might begin with mere extension of present social entitlements and training programs, it might end in a tinkering with the background system of poverty. The second theme of this alternative response to the managerial program, the counterpart to this strengthening of the social endowment of the individual worker would be in the multiplication of the forms of decentralizing access to productive resources. And more by oscillating between the single-minded imposition of the official creed and the appeal to halfhearted and eclectic concessions, moderating one evil by resort another.

## VI. Solutions and Conclusions

The solution is to distinguish missions and agents. The barebones version of the present IMF would perform the minimalist clearinghouse mission described below. Decentralized and competing organizations, working on different assumptions and promoting alternative programs, would do the work of international financial rescue and development assistance, with or against international private capital. Thus, the design of the regime of international economic coordination would embody the same principle of experimental variation in the institutional devices of the market economy that the prevailing ideas in economic the-

---

<sup>37</sup> An alternative to traditional mass production system as a new organization style "flexible specialization", of course, see Michael Piore and Charles Sabel, *The Second Industrial Divide: Possibilities for Prosperity*, (1984); on the reorganization of the firm see also Michael Best, *The New Competition: Institutions of Industrial Restructuring*, (1990). For new perspectives as to reinventing the firm see, e.g., Gerald Davis et al., *The Decline and Fall of the Conglomerate Firm in the 1980s: The Deinstitutionalization of a Corporate Form*, 59 *American Sociological Review* 547 (1994); Rosabeth Kanter, *The Future of Bureaucracy and Hierarchy in Organizational Theory*, in *Social Theory for a Changing Society*, (Pierre Bourdieu and James Coleman eds., 1994); Charles Sabel, *Learning by Monitoring: The Institutions of Economic Development*, in *Handbook of Economic Sociology* (Neil Smelser and Richard Swedberg eds., 1994).



ory and policy so strikingly fail to respect. We do not have to choose between accepting an arm's-length relation among firms or between firms and governments and promoting the power of authoritarian bureaucrats to "pick economic winners." So too we need not choose between repudiating international efforts at financial rescue and entrusting such efforts to a centralized bureaucratic apparatus, devoted to a single program.

Under the new Bretton Woods regime three distinct types of institutional agents should assume responsibility for three different jobs: the clearing mission, the turnaround mission, and the public venture-capital or development-support mission.

A leaner, chastened version of the present IMF should carry out the clearing mission. This is the work preventing, through the development of payment mechanisms and the concession of bridge loans, breakdowns in trade flows resulting from exchange rate volatility and balance-of-payments difficulties. The system should be funded by national-governmental contribution proportional to the country's participation in the world trading system. It would be appropriate for the national governments to impose much of this cost on the firms engaged in the trade and capital flows. After all, the clearing regime is an international public machinery for generating benefits captured, disproportionately, by private agents.

The turnaround mission is the medium-term work of assisting countries struggling to overcome economic crises that interrupt growth, whether or not these crises manifest themselves in balance-of-payments breakdowns. Among the crises may be the tense transition from one economic regime to another such as is experienced by the formerly communist economies of today. Help comes in the form of subsidized finance and technical advice. It also comes in the form of temporary variances, or claims for such variances, in the rules governing the international movements of goods, services, labor, and capital. Before suggesting the nature of the agents and of the funding of the turnaround mission, consider the third of three tasks to be carried out by the new Bretton Woods — the venture-capital or development job.

There is no sharp distinction between these two missions, only a relative change of emphasis, scope, and time horizon. The development work is the job of helping to fund and to shape a structure of self-sustaining growth, and of doing so in ways that are relatively uninhibited by the pressure for short-term profits. If the turnaround job is imagined as



an analogical extension of domestic Chapter 11, the development job can be understood by analogy to both traditional development aid and private venture capital, taken as two extreme points of a spectrum of assistance.

When working with the poorest and most backward economies, its focus would be the funding of basic educational and physical infrastructure, on the model of traditional development aid. On the other hand, when dealing with more advanced economies, or more advanced sectors of backward economies, the emphasis would fall on financial and technical support for organizations — public, private, and cooperative — that would in turn finance and inform small and medium-sized firms. Direct assistance to firms would be exceptional, and undertaken, when undertaken at all, for the purpose of experiment and example.

Neither the turnaround nor the developmental missions should be performed by centralized bureaucratic institutions like the IMF and the World Bank. Instead, a cast of multiple, overlapping, and competing organizations should carry out each of these two missions. These organizations would be established by, and accountable to, a representative supervisory organization, within or outside the United Nations system. But they would enjoy broad-ranging entrepreneurial autonomy. They would be encouraged to try out different understandings of either the turnaround or the development jobs, and to experiment with different practices in the actual execution of their work. The results achieved by each could then become subjects of public assessment and debate. Cumulative experience would support some of the emerging practices while discrediting others.

Like the IMF and the World Bank of today, these organizations would be technical — neither a political nor a purely entrepreneurial apparatus. Like the existing Bretton Woods organizations, they would draw most of their cadres from the staffer class of practical academics, ex-managers, and cosmopolitan bureaucrats. They would, however, be much smaller than the Bretton Woods mammoths, and they would make no pretense to impartiality about doctrines and strategies. On the contrary, an experimentalist partiality, energized and controlled by pluralism, would be their whole point.