

THINKING ABOUT DEVELOPMENT: RESPECTABLE AND ACCURSED PRINCIPLES

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THE RESPECTABLE PRINCIPLES

1. Avoid deficits both in the budget of the government and in the external accounts. Do not live beyond your means, except if:
 - a. You use the borrowed means effectively to fund an increase of productive capacity;
 - b. You need to break a low-level equilibrium of economic activity, shaped by inadequate willingness to spend and invest.
 - c. You are the hegemonic power (i.e. the United States), and can live for a long time off other people's money as well as off your own.
2. Do not debase the currency. Be sure the monetary authorities are independent and committed to price stability.
3. In general, prefer to achieve fiscal balance by limiting public spending rather than by increasing the tax take. Lighten the burden of taxation on economic activity both by preferring taxes that are relatively neutral in their economic impact (e.g., the VAT) and by limiting the aggregate tax yield.
4. In every area of economic, social, and political life, adopt some version of the best available practices and institutions, as they are now established in the United States and Western Europe.
5. In particular, consolidate the classic institutions of private property, and make them available, with a minimum of cost and red tape, to the largest number of people. Get the government out of the business of producing things.
6. Preserve incentives to work, save, and invest, and avoid distortions of price signals.
8. Encourage competition, both domestic and international. Develop free trade as rapidly and as broadly as possible..
9. Maintain hard budget constraints, at both the national and the enterprise

levels.

10. Spurn administrative arrangements susceptible to rent-seeking. Do not try to "pick winners" through a directed trade and industrial policy. Prefer rule-bound, arm's-length regulation to the discretionary allocation of support.

11. Regulate the banks carefully, and ensure their transparency to depositors as well as to regulators. Develop an orderly capital market that can help attract saving and channel funds to the most efficient users.

12. Move prudently toward an opening of the capital account. Be sure your financial and regulatory institutions are ready.

13. Adopt a floating exchange-rate regime or, in special circumstances, a fixed peg to a major world currency or currencies. Avoid intermediate solutions in the design of the exchange regime.

14. Do not try to raise the real value of the wage above the rate of productivity growth in your economy. Move toward flexibility in labor markets.

15. Strive for clean government and for a judiciary capable of enforcing contracts.

16. Run a public administration that is lean but able, staffed by a qualified and well-compensated career public service.

17. Give high priority to broad-based investment in education and to the development of social-safety nets.

18. Direct social spending to the people who most need it, and prevent it from being squandered on relatively privileged groups.

19. Above all, win and maintain the confidence of the people at home and abroad who have the money.

20. Send your young economists, lawyers, and bureaucrats to study at Harvard (the better to grasp the respectable principles), or, when that is not possible, to the closest available equivalent.

THE ACCURSED PRINCIPLES

1. Treat markets as a simplified form of cooperation among strangers (impossible when there is no trust and unnecessary when there is high trust), rather than treating cooperative practices as localized responses to market failures.
2. Prefer those cooperative regimes that are more hospitable to innovation. Recognize cooperation and innovation as twin but conflicting requirements of economic growth and look how to moderate their interference with each other.
3. Look for economic and political institutions that can expand access to productive resources and institutions, even when the development of such institutions may set you on a path of cumulative divergence from the arrangements now established in the rich North Atlantic world. Understand that the market economy, like representative democracy or free civil society, lacks a natural and necessary institutional form. Treat the coexistence and conflict of alternative institutional forms of economic, political, and social pluralism as a practical and moral opportunity for all humanity as well as for each nation.
4. Reject, as self-defeating, populist and authoritarian shortcuts to socially inclusive economic growth. Incorporate most of the respectable principles, but change their meaning by combining them with these accursed principles.
5. Ensure the conditions for mobilizing the resources of the country and defying the whims of the international capital markets:
 - a. high, mandatory pension saving;
 - b. high tax yield, with minimal trauma to relative prices and incentives (i.e., initial reliance on regressive taxation, with redistributive correction achieved on the spending side of the budget);
 - c. the stick: selective controls of capital movements;
 - d. the carrot: tightening of links between saving and production, both within capital markets (e.g. protection of minority shareholders) and outside them (independent public and private venture capital funds).
6. Prefer democratizing the market to merely regulating it or compensating, through retrospective transfers, for gross inequalities. Find institutionalized ways to give more people access, in more ways, to productive resources and opportunities.

7. Seek to challenge and overcome economic dualism -- the deep separation between productive vanguards and rearguards -- by lifting up the rearguards and tightening their links with the vanguards. Press to generalize advanced economic practices (flattened hierarchies, cooperative competition, production as learning and permanent innovation) beyond the frontiers of the present capital and knowledge-intensive vanguards. Do so by encouraging cooperative competition among networks of small and medium firms as well as by establishing decentralized partnerships between government and existing or emerging private enterprise.
8. By such partnerships, give practical effect to the idea of a modest economic independence for the little guy, while distinguishing this idea from the limited vehicle of isolated small business.
9. In this context, reintroduce public enterprise whenever useful as a temporary tool, not as the expression of an ideological principle. However, impose hard budget constraints on all public enterprises, and make them independent and competitive.
10. In the established private economy, impose “capitalism” on “capitalists.” Break up oligopolies, and undermine family control of big business.
11. Prefer capacity-giving economic and educational endowments (including some form of asset redistribution) to compensatory transfers. Give everyone a capacity-enhancing stake in the economic order.
12. Discard the dogma that the value of the real wage cannot rise above the level of productivity growth. Raise the value of the wage by a combination of democratic deepening, institutional changes (enhancing labor rights without creating a division between insiders and outsiders) and educational, skill-enhancing initiatives.
13. Prefer a strategy of economic growth that combines export orientation with a deepening of the domestic market, achieved through (a) expansion of the social base of advanced production and learning; (b) decentralized, pluralistic, rule-bound, and performance-based coordination between government and private enterprise; (c) resistance to making competitiveness depend on continuing wage repression; (d) selective engagement with the world economy on terms compatible with the national project.

14. Do not accept the identification of free trade with the system now organized by the dominant powers. Agitate to change the rules. Base the agitation on national heresies and on pressure applied by the heretical powers both to (a) prevent the world system from entrenching as vested rights the interests of the dominant powers (interests reflected, for example, in the aggressive expansion of intellectual property rights, the exemption of first-world agriculture, and the grandfathering of first-world export subsidies) and (b) make the system more supportive of alternative national ways (either the many ways or the second way to the many ways).

15. In the organization of the world economy, struggle to diminish, by small but cumulative steps, the contrast between the mobility of capital and the immobility of labor.

16. Deny conclusive force to arguments of the form: any policy involving differential treatment (for example, differential tariffs or differential interest rates) may be best in theory but will not be best in practice, because all selectivity is an invitation to the marriage of dogmatism with favoritism. Refuse the choice between "laissez-faire" and collusion. To escape this Hobson's choice, forge the instruments for a decentralized coordination between government and private enterprise. And change the background conditions and constraints shaping the relation of government to the economy and the society (theses 17 and 18).

17. Do not count on policy makers. Count on politics. Work toward a high-energy but institutionalized politics, marked by a high level of civic engagement and the rapid resolution of impasse between branches of government.

18. Favor a more general, more equal, and more independent organization of civil society as a counterpart to the democratizing of the market and the deepening of democracy. Supplement the traditional devices of private law by a public-law framework for the organization of civil society outside the state.

19. Seek in all things creative and productive power, with the broadest possible social base, and sacrifice, when necessary, the confidence of international finance to the needs of the real economy. To this end, take advantage of contradictions among domestic as well as foreign interests (for example, differences between the interests or the prejudices of financial and industrial capital). Take care first, however, to put in place the conditions for a favorable outcome (high tax take and saving level, prospect for expansion of productive activity and opportunity, promising export strategies, selective capital controls).

20. Go to Harvard (or the equivalent) to master the respectable principles, and discover the accursed principles.