

THE REALLY NEW BRETTON WOODS

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DISCONTENTS AND SUPERSTITIONS

The animating impulse of this proposal for the reconstruction of the Bretton Woods system is the belief that the world economy needs more, not less, of all the benefits Bretton Woods was designed to provide through international coordination and supranational institutions. However, the world cannot get what it needs without a much bolder set of institutional innovations in the arrangements for international economic coordination than the global staffer class and its political patrons have so far been willing to countenance or even to imagine. There are two main problems with the present design.

The first problem is that in the aftermath of the breakdown of fixed-parity exchange the practices of the IMF have come to confuse the fundamental but minimalist task of keeping the world economy open in the presence of the balance of payments difficulties with the work of national turnaround – helping to rescue developing countries, or countries in radical transition, from bankruptcy and chaos. The result has been the system of the conditionality agreements: too 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. 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 development 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-restraint. At the same time, the threshold responsibility of moderating the effects of transitory exchange rate volatility and balance of

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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 interventionist version of the IMF. However, the turnaround 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 two 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. A chain of analogies (and dis-analogies) links turnaround problems in firms and in whole national economies, in poor countries and in rich countries. The second 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.

THE NEW REFORMERS AND THEIR AGENDA

Sachs and others have suggested that the 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

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Bank. Finally, it would provide support for efforts to assert greater independence on behalf of the Bretton Woods institutions and their staffs.

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 Bretton Woods. Not new enough is my conclusion. Let me call it the emerging view.

The discussion advances in four steps. 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 themselves in national and international settings. 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 part of the paper outlines the affirmative, more radical program of reconstruction of the Bretton Woods system that is implicit in my critical account.

FIRMS AND COUNTRIES: FLAWED ANALOGIES

The problem of selective turnaround and of soft-budget constraints is omnipresent in contemporary economies.¹ 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 questions: when and how to rescue firms, at what cost, and through which agents, by inferring rules and solutions from the abstract concept of a market economy. From the abstract concept we can infer only other equally empty and indeterminate abstractions. These are practical choices among competing interests and competing visions, and they are characteristically constrained by a very circumscribed understanding of alternative institutional arrangements.

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 the service of the illusion.

First, there is no uniform legal-institutional environment throughout the

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world, despite the orthodox hope of worldwide convergence toward the same institutions. 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. The test of success for turnaround in governments and 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.

Third, turnaround decisions in an international setting are not made by judges, bankers, creditors and debtors according to economic calculation and impersonal law. They are made by a supranational technocracy, largely funded and supported by the leading economic powers, relying upon economic ideas that are dominant but contested, and acting through a combination of rules-of-thumb and discretionary judgments.

BRETTON WOODS IN THE SERVICE OF DOGMA

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. It did so 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 be likely to become all the more 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 – 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 or arrested inter-

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ventionism, given the centralized, controversial and relatively unaccountable character of the institutions serving as its instruments.

It is interesting to reconsider these problems from the standpoint of the proposals discussed, and the experiences undergone, during the foundational era of the Bretton Woods regime. Both the White Plan and Keynes' rival scheme for an International Clearing Union limited the discretion to be accorded the newly empowered technocracy: the White Plan, by tying this discretion to the mechanics of gold-based fixed parity; Keynes' blueprint, by appealing to relatively automatic rules and practices such as traders might use in a private clearing system. Despite these precautions, Keynes remained obsessed with the need to guarantee the practical political autonomy of the international technical experts who would be the enlightened agents of the moderate interventionism he favored.

Nothing is more revealing of the dependence of institutional proposals upon unavoidably controversial doctrines than the way in which the rules of Keynes' ICU exhibited his characteristic concern to rescue the overspenders and to punish the oversavers in international trade. It is equally suggestive that the Marshall and the Dodge Plans – described by McKinnon as far more successful than the Bretton Woods institutions themselves – succeeded precisely because they did not need to feign impartiality or detachment. As schemes imposed by the victors upon the vanquished (as well as upon the impoverished victors) they conformed to clearly stated and comprehensive development strategies. The institutional vehicle imposed no constraint upon the substantive program, nor did the substantive program burst the limits of its institutional agent.

Nevertheless, when all is said and done, the world needs arrangements for international turnaround just as it needs development support. How can it get what it needs without having to please American professors of economics and French *inspecteurs des finances* as well as the United States Congress? How can it get what it needs without finding its needs victim to an unresolved conflict between an unfinished work and an unsuitable agent? The answer is: not without a more thoroughgoing reconstruction of the Bretton Woods system than the loyal opposition has so far been willing to consider.

ALTERNATIVE MARKET ECONOMIES, ALTERNATIVE DEVELOPMENT STRATEGIES

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 organizations holds urgently needed international help hostage to national

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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 contemporary theory and policy.

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

Similarly, multiple exchange rates (distinguishing, for example, between imports of consumer and of capital goods) may be better in theory than either a unified pegged rate or a unified floating rate. For the same reason, however, multiple exchange rates are likely to be worse in practice. A parallel discussion arises in arguments about the differential allocation of credit to industry or the use of fiscal policy to influence, differentially, decisions to save and invest.

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. The difference is that in this second class of arguments, unlike the first set, about selective trade and industrial policy or multiple exchange rates, there are no identifiable second-best solutions.

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 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 those 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 –

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the ones about the theoretical first-best of governmental activism and the practical second-best of governmental passivity. 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, on one side, activism, selective policy or strategic coordination and, on the other, arm's-length market relations. 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 or differential credit allocation 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 North-East Asian 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 serenity of market-driven experimentalism. Taiwan, for example, has enjoyed a more decentralized version of industrial and financial assistance, one more friendly to small business, than has South Korea.

These established variations are best understood as a subset of a far broader and always ill-defined range of institutional possibilities. In practice and in imagination the institutional repertory broadens by analogical extension. Thus, we may imagine a form of industrial policy having the same relation to the Taiwanese version that the Taiwanese brand has to the South Korean. As we progress along this spectrum, the pressure to move from the theoretical best of active selection, differentiation and coordination to the practical second-best of governmental passivity and rigid contrasts between cooperation and competition diminishes. The arrangements of strategic coordination become less vulnerable to hijacking by privileged interests and bureaucratic know-alls. In fact, the distance between the allegedly opposing tacks of the pure market and the guided market narrows.

If we move far enough in this direction we come to the idea of strategic coordination deployed by distinct and competing agencies, accountable both to firms and to governments while enjoying substantial independence from both. Such a regime may make it possible to try out, in particular

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sectors of the economy, different strategies of selective help and to assess empirically the results of each. It may therefore be more open and experimentalist than a regime which reduces the relations among firms to pure competition and the relations between governments and firms to arm's-length regulation.

We arrive at a similar conclusion if we begin from the other end, thinking through the possible institutional forms of the market economy rather than the possible institutional arrangements for selective interventionism and strategic coordination. One of the major results of the work of legal thought since the mid-nineteenth century has been to demonstrate that the market economy lacks a single natural and necessary legal form. No one system of rules and rights of property and contract, or of arrangements for the corporate organization of business, or of labor-law regimes, defines a market economy. Private property itself turns out to be just a "bundle of rights." We can disassemble and recombine it in any number of ways. We can pull apart its constituent powers and vest them in different types of right-holders.

Should the form of private property in a market economy emphasize the extension of access to productive resources, preferring whatever property regime broadens such access to the greatest number of economic agents? Or should we underline instead the absoluteness of the power that each owner enjoys over the resources at his command? If the former emphasis prevails over the latter we may be led to develop a system of fragmentary, conditional or temporary property rights, sacrificing absoluteness of ownership to effective access. Should the regime of private property freely allow the hereditary transmission of wealth, with its sequel of unequal advantage and opportunity? Or should we instead develop, within the market economy, a scheme of social endowments by which individuals inherit from society rather than from their parents? Under such a plan, individuals might receive increments to the socially guaranteed minimum endowment according to the contrasting and complementary principles of rewards for competitively demonstrated capacities and compensations for authoritatively certified needs. Should there be, as we have been accustomed to think there must be, just a single system of contract and property rules? Or, as a more thoroughgoing experimentalism recommends, should different legal-institutional mechanisms for the decentralized allocation of capital coexist within the same economy? On our explicit or implicit answers to such questions depend our attitudes to the problems presented by the familiar definitions of the theoretical best solutions and the practical second-best solutions in economic policy. The position we take in such debates is no more defensible than the institutional assumptions we bring to them.

Seemingly speculative institutional possibilities come to life in the realities of national politics and in the political choice of alternative growth paths. We cannot sensibly understand what happened to Germany and

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Japan in the nineteenth century, or what happens to Asian "tigers" today, by treating the market economy as the object of a take-it-or-leave-it faith or by reducing our choices to a hydraulic measurement of more or less governmental intervention in the economy. Politics becomes fate by settling the institutional and imaginative context in which routine conflict and competition, innovation and growth, take place.

The dominant styles of economic analysis remain, however, powerless to penetrate this fateful institutional reality. They continue to be tainted by institutional fetishism: the unwarranted identification of the abstract idea of the market economy with a particular system of private law and a particular legal structure of relations between government and business. Institutional fetishism blinds much of the familiar discourse of economic policy to the specificity and the contingency of these legal arrangements. This fetishism prevents us from appreciating how much these arrangements are the products of chance compromises between pre-existing privileges and concessions to freedom, struck with the institutional and doctrinal materials lying at hand. The "new institutionalism" supports this prejudice because it portrays the surprising history of economic institutions as the predictable and continuous interaction between rational economic behavior and changing pre-political facts, such as population growth. It is against this intellectual background, as well as against the background of the communist collapse, that so many contemporary ideologues present the history of modern institutions as the record of a narrowing funnel of convergence worldwide toward the same economic practices and institutions.

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, together with the dynamic effects of incorporation into the world trading system, will 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. Were such assurances of obedience not given, money would indeed be wasted. The comparison to domestic turn-around soon reveals its more tangible meaning: the IMF should assume

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more explicitly its responsibility of satisfying the conditions for the world-wide 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 to 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 blocs 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.

Today in the world economy two great transformations and contests are in their youth. To understand them and to understand how they can speak to each other is to grasp the limits of the 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 primarily upon internal saving and investment, which upholds the possibility of active partnerships between government and business in the pursuit of a national development strategy and which dispenses with the 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.

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The other great change and debate centers on the process of industrial reorganization now underway in the most successful regions and sectors of the advanced economies. There is a managerial program of conservative industrial renovation. Its complaints are the rigidity and the conflictual character of the present industrial system. Its first byword is flexibility, meaning more mobility for capital, achieved through more power of independent decision by the present owners and managers of capital: power, for example, to close plants or to re-allocate jobs abroad. Its second byword is cooperation: teamwork to motivate workers and to organize flexible, non-standardized production. Flexibility and cooperation are in tension. To manage this tension by devices such as the segmentation of the laborforce into more stable and less stable tiers has become the most urgent concern of the conservative renovators.

The conventional social-democratic response to this program of conservative industrial renovation also has two elements. The first plank in its platform is the commitment to fight a rearguard action, through stronger claims of job tenure and rights to prevent plant closings, in defense of the threatened positions of workers. Under such a program temporary advantages become vested rights. The second part of the social-democratic answer to the managerial program of conservative renovation is to multiply the recognition of stakes and stakeholders in firms so as to include workers, consumers, local governments and a variety of organized publics. Pursued in earnest, such a program threatens to aggravate the complaints of rigidity and conflict that initially motivated the program of conservative renovation. It risks producing paralysis in economic activity. It digs into the niches of declining and besieged sectors of industry rather than laying the basis for a more solidaristic, popular alliance, connected with a long-term project of economic reconstruction.

The future of the popular and the progressive cause in the rich industrial democracies has come to depend in large measure upon the possibility of finding an alternative to this desperate social-democratic formula. For the moment, labor and social-democratic parties oscillate between the formula and the resigned acceptance of the program of conservative renovation, attenuated in its effects by the maintenance of the welfare state, the most lasting legacy of social democracy. Unable to choose between these two thorny paths, the social democrats find themselves disoriented. Their program is often the program of their adversaries, with a 50 per cent discount.

Can we find an alternative that universalizes and equalizes "flexibility," multiplying means of decentralized access to productive resources and strengthening the social endowment of economic and cultural equipment with which the individual can thrive in the midst of economic innovation and instability? To answer this question affirmatively is to begin to give a renewed, more democratized form to the market economy. A successful

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answer is likely to involve the development of a more decentralized and experimentalist partnership between governments and firms. Semi-independent and competing agencies, standing between firms and governments, may take the lead in providing help and coordination. They may make cultural and economic resources available on a variety of terms, experimenting with temporary, conditional and fragmentary property rights. The task of working out such a democratizing alternative to conventional social democracy turns out to be rich in analogies to the work of those who in developing countries look today for an alternative to the neoliberal project.

The world in which international financial rescue and development assistance remain urgent is a world in which these conflicts – or conflicts like these – will intensify rather than wane. Suppose the international turnaround and development-assistance missions continue to be executed by unified and centralized bureaucracies acting, more often than not, as the coordinating and certifying agents of private capital. The Bretton Woods organizations will then become evermore unabashed, although largely unaccountable, partisans in a struggle of interests and of visions. They will serve as the instruments of the dominant economic program – the one that happens at the time to be favored by the leading industrial powers and, most especially, given the hegemonic status of the United States, by American government, business and academia.

Even if you adhere to the dominant program, you may have reason to reject this result. First, it helps strangle worldwide experimentation with diverse views and strategies. Second, it forces the rebellion against the ruling prescription to turn into a revolt against the system of international economic coordination itself. Third, the staffs of the Bretton Woods organizations may well respond by oscillating between the single-minded imposition of the official creed and the appeal to halfhearted and eclectic concessions, moderating one evil by resort to another.

The solution is to distinguish missions and agents. The barebones version of the present IMF would perform the minimalist clearing-house 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 theory 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

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efforts at financial rescue and entrusting such efforts to a centralized, bureaucratic apparatus devoted to a single program.

At the meeting at which the papers composing this book were delivered, the dead hand of supranational technocracy and academic orthodoxy rose up in defense of convergence and consensus. Even the gold standard was exhumed in the grinding quest for stability no matter what. We heard the voice of the Hegelian universal class, professing to represent no particular countries, classes, interests, ideologies or intellectual traditions, only the inexorable demands of an unyielding global progression. A ragtag band of currency traders and academic malcontents provided such opposition, offering the tenuous affinity between financial speculation and intellectual subversion as a token vestige and reminder of the restlessness outside.

A PLURALISTIC 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 of 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 contributions 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. Two large restrictive qualifications should circumscribe the scope of this work.

First, the clearing support should not be diverted into the maintenance of preconceived exchange rates among the trading partners or intervention in the wars between central banks and currency speculators. If the major trading partners believe it to be in their interest to impose some fix on exchange rates they should do it by other means and through other agents, respecting the integrity of the clearing system.

Second, the administration of the clearing regime should not be used, in the fashion of the IMF's conditionality agreements, to police national economic policies and force them into a convergence toward the reigning consensus. Persistent balance of payments difficulties resulting from wrong-headed economic policies, or from unresolved structural problems in a national economy, should not be addressed, directly or indirectly, by the clearing system. It suffices to insist that the bridge loans be short-lived and closely linked to the preservation of trade and capital flows. Thus, unlike

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Keynes' International Clearing Union, this system would seek to be as neutral as possible among conflicting political-economic assumptions and strategies. It is safe to entrust such a self-denying task (but no more) to technocrats like those who run and staff the IMF of today.

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 movement 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 the 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, on the model of traditional development aid, the funding of basic educational and physical infrastructure. 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 would be 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

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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.

The more depoliticized and automatic the funding of such bodies, the better. Thus, supplementing the earnings of these post-Bretton Woods organizations with a worldwide tax is to be preferred to a list of national governmental contributions. Moreover, the preference should be for a tax that is relatively neutral in its consequences for investment, production and distribution and therefore less likely to operate, or to be understood, as a tilting of scales among interests or among ideologies. Thus, we might prefer a proportional surcharge to the comprehensive flat-rate value-added tax, or to the closest approximation to that tax, within each national economy. There might be two or three gross levels of surcharge according to the standing of each country in a gross ranking of comparative prosperity.

From where would the fiercest opposition to such arrangements come? Not from poor countries indignant at rich countries. Not from little countries fearful of big countries. Not from labor in confrontation with business. Not from business recalcitrant to governmental tutelage. Not from any force or class recognized in the traditional vocabulary of interest analysis. The fiercest opposition would come from the same cadres of economic bureaucrats and academics-on-leave who form the heart and soul of the Bretton Woods system today. They would hardly lack for jobs in the new Bretton Woods. It is just that they would have to give up some of the confusion of science, politics, charity and personal adventure into which, alas, they have sunk.

NOTES

- 1 I developed, through discussions with Zhiyuan Cui, my understanding of the pervasiveness of what János Kornai, studying the political economy of communism, first described as “soft-budget constraints.” To Professor Cui I also owe my understanding of the dilemmas of moral hazard and entrepreneurial innovation mentioned here. He is presenting in a separate paper (see pp. 57–63) an alternative programmatic response to the problems addressed in this note.