



Beyond the State Versus the Market

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ABSTRACT Sanjay Reddy takes us beyond the polarized debate over the relative roles of state and market to the vision of a democratized market economy.

The two wrestlers?

For a century and more, debate over the organization of society has largely taken the form of an imagined Herculean contest between the two monolithic alternatives of state and market.¹ It has been imagined in some of the prevalent conceptions in this debate that one of these giant wrestlers would win this contest, permanently pinning down or eliminating the opponent. In other prevalent conceptions, such as that of the European post-war 'social market economy', it has been imagined that these two lumbering wrestlers might engage in an endless dance, or even resolve their dispute in an amicable embrace. These more and less dour alternatives, it has been imagined, exhaust the arena of human possibility.

In obedience to the terms of this debate, as the second millennium comes to a close, some are delighted and others stand in despair. The 'market' is said to have triumphed, and with this triumph the form of the best possible institutions for all the world's societies is said to have been determined. Further, it is imagined that as the now tired and emaciated wrestler representing the 'state' sits brooding in the corner, he is being slowly pinned into his place of respite by the tautening rope of globalization. In this way, the triumph of the victor is to be secured for the new millennium. Indeed, he dances alone with increasing abandon.

How true are the terms of this description to the reality in which we find ourselves? Thankfully, as we work to remove the tarnish from our mirror, we will surely discover that the vision of the two wrestlers is illusory. Indeed, neither wrestler exists. As we peer more assiduously into the actual rather than imagined form taken by states and by markets, we discover that there is no single or privileged form of either. The stereotyped form of this contrast gives way to a world of possibility. Markets and states may each be organized in innumerable

different ways. Indeed, as our mirror clears, we see that their boundaries may be blurred and unclear. Their relations with one another may equally be organized in diverse ways. Finally, objects which seemed unitary now appear as a collection of entities. The question which once seemed all-pervading and natural, 'State or market?', now appears nonsensical. In its place appear new and less familiar questions: 'Which state? Which market?'. When the tarnish has been removed entirely, we will have escaped our century's historic strait-jacket. We will discover anew the promises of freedom.

Which market?

There is no single ideal type to which the actual experience of markets in the world corresponds. The market economies in the world which have been most materially successful at various points in the last half century have been of radically different forms. For example, in some of these market economies, centralized wage bargaining under the oversight of the state and national confederacies of labour unions and businesses has played an important role, whereas in other cases decentralized wage bargaining loosely regulated by labour law has been the norm. In some of these market economies, norms and institutions governing employment have limited the divergence in remuneration and in working conditions between managers and workers, and in others such norms and institutions have played a lesser role. In some of these successful economies, the employed have had secure assurances of continued employment within firms and in others they have been subject to an environment of continual uncertainty and flux. In some of these successful economies firms have developed a vital cooperative relationship with educational institutions which has facilitated the development of pools of skilled labour, whereas in other instances firms and educational institutions have had at most loose relations. These successful economies have also varied considerably in the manner and extent to which they have facilitated the entry of immigrants and of women into the labour markets. In some successful market economies,

financial institutions such as banks have played a vital role in the oversight, management and coordination of firms, whereas in others the role they have played has been that of the occasional and marginally involved financier, and the function of 'corporate governance' has been played to a larger extent by shareholders. In some of these successful economies, cooperative relations between firms, often facilitated by public institutions, have underpinned the dynamism of regional economies, whereas in others innovation and material success have seemed to centre on more purely competitive relations between firms.

What are we to make of this panoply of differences? According to the dominant school of thought in the world the institutional differences observed among contemporary market economies are to be viewed as minor rather than vast, at least in the favoured comparison with now defunct forms of bureaucratic centralized planning. Further, it is proposed by the adherents of this school of thought either that the variations among successful market economies are 'optimal' adaptations of the ideal – typical market to unavoidable variations in background circumstances – or alternatively that they are no longer relevant historical residues of past circumstances and mistakes – obstacles to be overcome in the forward march to the ideal-typical market economy.

A second less imprisoning interpretation is possible. On this second view, the observed variations among actually existing market economies represent only a minority of an enormous and perhaps inexhaustible constellation of yet unrealized possibilities. The familiar few existing arrangements of institutions within a market economy derive not from necessity but in considerable measure from variable political settlements, imperfect attempts to pursue economic opportunity in the face of uncertainty and accidents. Viewed in this way, the existing range of market institutions is to be seen not as the comprehensive menu of possibilities from which conceptions of the market economy may be drawn but rather as an indication of a realm of social possibility which is far greater still.

When we are released from the narrow vision of economic and social potential to which the

conception of the stereotyped market economy confines us, the question 'Which market?' gains a new significance. It requires us to imagine and not only to examine. Where can our imagination lead us? This depends on where we will allow it to lead us. However, one image of possibility comes repeatedly to the fore, pressed by our flight from the social and spiritual hollowness of the existing economic imagination, and equally from the panoptical and authoritarian pretensions of central planning. This image is that of the democratized market economy.²

What could be the *ends* of a democratized market economy? Such an economy would at its most general level be characterized by the overcoming of segmentation and subordination. It would favour deconcentration and delegation over centralization of function and authority. It would distribute widely the fruits of ownership as well as the privileges of control. It would seek as primary ends full employment and the inclusion of the excluded in the productive life of society. It would welcome and foster opportunities for the integration of the workplace and its tasks with the lives of the individual, the community and the family. It would strive to break down the sequestration and routinization of the educational process, and seek as one of the ends of the economic life of society the generalization of the experience of learning. Simultaneously, such an economy would not be predicated upon the sacrifice of material prosperity, but rather would seek out the areas of overlap between material enhancement and the realization of democratic ends. Finally, such an economy should strive to assure that the conceptions of collective identity and of democratic possibility and responsibility, in relation to which it gains life, do not end at arbitrary boundaries, including those of the nation.

Of what concrete *institutional features* would a democratized market economy consist? The concrete forms of viably democratized market economies remain to be experimented with. Partial and initial inspiration for these concrete forms may be gained from existing experiences of socially-successful economic organization. Some of these existing experiences (such as those of the highly successful industrial collaboration between private firms and states in Korea, Taiwan, Japan and elsewhere) demonstrate the viability and potential

of institutions of public-private cooperation. Other experiences (such as those of the at times highly successful regional economies of Northern Italy, the Ruhr valley in Germany, and parts of the United States) demonstrate the possibility of diverse small firms founded upon and oriented towards learning and technological innovation thriving within integrated national and global markets. These and further experiences (such as the relation between firms and their subcontractors in the most influential 'Japanese' style of manufacturing) also illustrate the importance of long-term relations of cooperation and trust among firms, or between firms and public authorities, in facilitating learning and innovation in regard both to technology and to organizational forms and relationships.³

Still other experiences, such as those of the Mondragón cooperatives in Spain and of isolated firms throughout the world demonstrate that heightened ownership and management by workers can be compatible with economic vitality and success. Experiences such as that of the innumerable highly successful Township and Village Enterprises in China demonstrate the possibility of enterprises with ambiguously defined and hybrid ownership structures (incorporating workers, local public authorities, and external private investors) thriving within competitive market environments. The Township and Village Enterprises of China may also illustrate the possibility of successfully muting the contrast between urban-industrial and rural-agricultural life, so as to diminish the extent of emergence both of an excluded hinterland and of a mass of migrants to urban life suffering through an experience of social rupture. These experiences each serve partially to illustrate different possible faces of a democratized future. A process of democratic development will involve the experimental combination of these and other yet undiscovered sources of institutional inspiration.

Among the general features which might characterize a democratized market economy are firms consisting of a composite of forms of ownership and governance relations. In such firms, workers would enjoy an enhanced role in decision-making and in the fruits of production.

Equally, however, shares in such firms might be possessed by a range of private individuals and public holding institutions representing the broader citizenry. These firms and public institutions would enjoy constitutional protection from specific forms of state interference as well as being firmly subject to a law of bankruptcy. New forms of property rights conferred in an egalitarian manner upon citizens, such as shares conferring dividends and tradeable into other shares but not into cash, would help to sustain the democratic as well as competitive character of the pattern of ownership.⁴

A democratized market economy might also feature a range of independent social funds given a central role in the allocation of capital. Such funds, possibly financed both publicly and by private investments, would mix private and public purposes. They would seek to serve well-defined social ends while also remaining mindful of their budget constraints and being subject to a rule of bankruptcy.⁵ Such social funds as well as regional and municipal bodies would facilitate the development of productive relations of cooperation and networks of learning bringing together competing but interlinked firms, as well as firms and educational institutions. Laws governing the participatory rights of labour, and public authorities charged with their oversight, would help to ensure the regime of internal democracy within firms. The institutions of macroeconomic management such as the central bank would enjoy a measure of statutory 'independence' from the everyday flux of political calculation but would simultaneously be constitutionally governed ultimately by direct representatives of workers and citizens and not only of firms.

A major task of the democratized market economy would be to overcome sectoral and geographical subordination. This need will be particularly pressing in the case of economies with large agrarian sectors. To face this imperative, a democratic market economy would invest heavily in the capabilities of people, both as an end in itself and as a means of enhancing the competitive capacities of groups and regions. Such enhancement of capabilities would be accomplished in the first instance through the provision of basic health services and education, and secondarily through complementary means such as the provision of

accessible credit and appropriate market linkages. Experiences of the attainment of high levels of health and basic education paralleling those of much richer regions, despite very low levels of income – in Kerala (India), Sri Lanka, Costa Rica and elsewhere – illustrate the possibility of the rapid extension of these basic capabilities to all, independent of rather than as a postscript to the attainment of economic success.

As another means of overcoming such subordination, the democratized market economy would sustain institutions devoted to the design and dissemination of appropriate technologies, suited to economic opportunities and cultural and ecological needs as well as the democratic objective of ensuring widespread and self-determining participation in the productive process. Such institutions, which would compete and collaborate with one another, would draw upon the knowledge and experience of end-users as well as of technical specialists.⁶ It would also institutionalize procedures for heightened democratic oversight of the implementation of larger scale technical projects. In this way, the democratized market economy would overcome 'false necessity' not only in the design of institutions but in the initiation of new technologies and in the choice of technique.

By cultivating new practices of production, a democratized market economy would also nourish and sustain new practices of consumption. The experience of democratized work life in a democratized society will provoke a cascading vision of human possibility. Released from the narrowly consumption-centred vision of human self-realization necessitated by the Fordist compact, citizens and workers may be drawn to and experience new conceptions of worthy and possible lives. It may be imagined that the relentless impetus to consume so as to provide a salve to the self would give way to the yearning for individual and social reconstruction. Equally, the view that the sole viable means of overcoming mass unemployment is to enhance production will seem increasingly implausible, as the spirit of democratic institutional experimentalism brings to light alternative ways of organizing work. The key to the redemption of human relations with nature can therefore be the rediscovery of democratic opportunity.

Which state?

A democratized market economy requires effective public authority and institutions, or put otherwise, an effective state. Where such effective public institutions do not exist, they must therefore be created. Effective public institutions will be required not only to protect fundamental rights of citizens, and to engage in adjudication and regulatory oversight, but to play the more active mediative and facilitating role envisioned in the description of the democratized market economy. The democratized market economy as conceived of above will include a range of quasi-public entities, embodying varying degrees of public purpose.

The now dominant description of public institutions casts systematic doubt on the possibility of making such institutions effective. This so-called 'public choice' view emphasizes the significance of the privately self-seeking behaviour of administrators and politicians. It insists that 'rent-seeking' and other self-promoting activities systematically undermine the capacity of public institutions to carry out the tasks with which they are formally charged.

There is undeniable truth in the statement that the performance of existing public institutions has often been extremely poor. Nevertheless the dominant 'public choice' perspective is based on at least two fundamental misconceptions. The first of these misconceptions results from a failure to apply the internal logic of the dominant view. It overlooks the possibility that, even if public officials are systematically motivated only by their narrowly private ends, an appropriate restructuring of incentives within public institutions so as better to bring these narrowly private ends into consonance with public purposes can be expected to lead to an enhancement of the performance of public institutions. If adequate 'solutions' to the complex 'principal-agent' problems which characterize all large organizations are possible in purely private organizations then there is no obvious reason why such a solution should be impossible in organizations which also encompass public purposes.⁷ The standard economic theory of organizations does not by itself lend support to the prejudice that the pure private ownership form enjoys decisive

support over its alternatives.⁸ The actual comparative experience of enterprises with different ownership forms further undermines this prejudice.⁹

The resolution of this first misconception is not however a sufficient basis on which to vivify public institutions. The public purpose of public institutions cannot be maintained if they are viewed simply as an amalgam of cross-cutting private interests. A larger vision of possibility and actuality must be widely shared as a prerequisite to public institutions actually fulfilling such a vision. This leads to the diagnosis of the second misconception of the dominant perspective. This is its impoverished account of human motivation. The dominant analysis of public institutions overlooks the complex and multiple motivations of which human beings are capable, and substitutes in its stead a narrow conception of interest and incentive. Examination of the actual experience of successful public institutions supports the recognition that a range of motivations including social concern, the desire for public recognition, and the expression of corporate and collective identity are determining elements in their success. A broader climate of social and economic life which encourages and sustains these and other motivations can be both the product and the ultimate foundation of successful public institutions. Public institutions if they are to be fully successful must simultaneously take cognizance of incentives narrowly considered and resolutely refuse to be governed wholly by them.

Effective public institutions are necessary and possible. They will result from the creative redesign and restructuring of the existing internal apparatus of state as well as through the transformation of the social environment within which these institutions reside. Both a new ethos of social and moral purpose within the state, and enhanced mechanisms of accountability to citizens, will be necessary. These requirements can be sustained through two types of reforms. The first of these involves the heightening of the level of democratic political engagement. Structural reforms such as the public financing of political information and campaigns as well as measures facilitating the transparent flow of information and the holding of officials directly to account by the public they serve

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through innovative mechanisms, will enhance the quality of oversight of public institutions.¹⁰

The second type of reform involves the 'internal pluralization' of the state. This is a demand for the unparcelling where appropriate of highly aggregated and unitary existing state institutions into diverse entities charged with similar tasks, so as to generate both greater proximity to citizens, and an element of competitive pressure among public institutions. The diverse and competing statutorily independent 'social funds' identified above in the description of the democratized market economy are an example of the form which such pluralization could take.¹¹ That public institutions may be invested with a degree of independence from day-to-day political demands is testified to by the existence in many countries of independent judiciaries and central banks. The legal forms which will enable a wider variety of public institutions to function as mutually autonomous while democratically accountable remain to be invented and generalized. The internal pluralization of the state more generally involves the creation of a lateral capacity for monitoring and regulation as well as for cooperation and mutual learning among these public institutions. This vision presupposes the presence of a central authority charged with the establishment and maintenance of the overall purpose of the ensemble of public and quasi-public institutions. Nevertheless, it makes possible a movement away from the inflexibly bureaucratic statism which has weighed down the social and developmental imagination.

It has become popular in recent years to elevate 'civil society' as an alternative to both market and state. In this conception, the private voluntary and 'non-governmental' organization is seen as an efficient and decisive alternative to both state and market as a provider of public services and mobilizer of public efforts. In contrast, the vision of the renovation of the state suggested here proposes a simultaneous avoidance of the centralist romanticism of the state and the libertarian romanticism of civil society. It underlines that there can exist a reciprocal relation between the success of public institutions and the vitality of the social order.

Further, it proposes a conception of public and quasi-public institutions in which a stark line of division between the institutions of 'civil society' and those of the state will not be fully possible or desirable to maintain. Nevertheless it depends vitally upon the energies of 'civil society' for its realization through the effort of the former to further practical democratic experimentalism, through political and social activity directed towards the reshaping of institutions both at the level of the locality and in a much larger frame.

The vision of democratic possibility proposed here, while focused on the shape of state and market, cannot be confined to either. To be successful it must extend to the inner practices and life of the family, of the schools, of the institutions of religious life and cultural transmission, and of the forms of common association among individuals. The enlarged experience of democratic work and democratic political life can provoke transformed expectations and languages of interpersonal engagement in each of these interlinked domains. In turn the dream of a more democratic society can only be furthered by the experimentation with equalizing and democratic styles of life in each of these spheres of intimacy and interrelation.

Which future?

The democratized market economy is a response to the false dilemma which has been posed to us. Of more profound importance, it is an attempt to realize the full fruit of our moral and personal ideals. In both of these respects it is an answer to the question 'Which future?'. In the idea of the democratized market economy, scepticism concerning bureaucratic gigantism is united with faith in the possibility of the social embodiment of love. In this image of the future, an enlarged and expandable concept of human self-realization combines with attention to the actualities of social institutions. The resulting vision, which must be bold but not immodest, can succeed if, and only if, it is sustained by an abiding sense of faith in the possible. Such a faith is our duty to the present and can be our offering to the future.

Notes

- 1 I am greatly indebted to Roberto Mangabeira Unger for establishing the central intellectual foundations of this essay, although he cannot be held responsible for any of the misconceptions or inadequacies which may be associated with my own attempts to interpret and supplement these.
- 2 I entirely owe my use of the term as well as many elements of the specific conception of the democratized market economy outlined here to Roberto Mangabeira Unger.
- 3 The diverse work of Charles Sabel (see, for example, Sabel, 1982 and Sabel and Piore, 1984) has been very influential in relation to many of the points made here. See also, for example, Pyke and Sengenberger (1992).
- 4 See Roemer (1994) and Przeworski et al. (1995) for proposals of this kind.
- 5 The 'social funds' described in this article are not to be confused with the 'emergency social funds' and 'social investment funds' which have been initiated in a range of developing countries in recent years with the encouragement of the international financial institutions, although there are some promising similarities which illustrate the viability of the broader concept envisioned here. The recent funds, while semi-autonomous, often using new management techniques, and responding to project proposals from communities and non-governmental organizations in an ostensibly 'demand-driven' manner, are

single entities charged with the limited objective of financing narrowly-defined primarily ameliorative social projects.

- 6 An example of an institution of this kind which already exists is Application of Science and Technology to Rural Areas (ASTRA), a centre based in Bangalore, India. (See Bhalla and Reddy, 1994.)
- 7 This argument has been developed independently at greater length by Rao (1995).
- 8 See for example Stiglitz (1994).
- 9 See for example Clarke and Pitelis (1993), and Vickers and Yarrow (1988) for examples of the failure of comparative studies of enterprises to establish decisively superior efficiency of private ownership.
- 10 Some of these and other ideas for structural reforms which may be expected to heighten the level of democratic political mobilization are formulated and addressed in Unger (1997). Some mechanisms by which public officials may be better held to account are discussed by Reddy and Pereira (forthcoming).
- 11 Not all tasks of public institutions can be appropriately pluralized in this manner. Where the primary role of public institutions is to provide pure public goods, the emphasis of the reform of public institutions should be on the enhancement of direct accountability mechanisms.

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