
Neo-liberalism or Democracy? Economic Strategy, Markets, and Alternatives for the 21st Century

Arthur MacEwan

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Edited jointly with Thomas E. Weisskopf, *Perspectives on the Economic Problem: A Book of Readings in Political Economy* (Prentice-Hall, Englewood Cliffs, NJ, 2nd edn, 1973)

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There are Alternatives

It is remarkable how much our economic lives changed during the twentieth century.

It is also remarkable how little our economic lives changed during the twentieth century.

Most people, confronted with these two statements, will have no trouble accepting the first but are likely to balk at the second. After all, the century saw a huge expansion of material production, technological changes that were almost unthinkable at the end of the nineteenth century, and an increase of average life expectancy – perhaps the best single measure of material well-being – far, far greater than that of any other era. Not only are things very different, but, in material terms at least, it appears that they are very much better. The change is certainly remarkable.

Yet in spite of the huge material progress that virtually defined the twentieth century, we continue to live in a world of dramatic inequalities. If we define material well-being in relative terms, which corresponds to the way people generally appraise their economic situations, things have not changed very much in the last 100 years. Income and wealth are, as they were at the end of the nineteenth century, highly concentrated in a few countries and in small, elite groups in most other countries. What's more, with a few notable exceptions, the list of rich countries at the end of the century was pretty much the same as at the beginning of the century. (Of course, in the rich countries inequality is also substantial and, in some notable cases, on the increase.) In spite of the tremendous rise in production, rapid technological change, and great increase of life expectancy, the 'development gap' appears as large as it was 100 years ago. The lack of change is certainly remarkable.

The persistence of the 'development gap' continually confronts us with the question: How can people in poor countries most effectively organize their economic lives and improve their material conditions? This broad question immediately spawns a long series of related questions about how economic development should be pursued. For example, what does an

analysis of the historical record tell us about the respective roles of markets and states in advancing economic development? Does the remarkable experience of economic expansion suggest that development comes when the state directs and regulates markets? Or does it suggest that we should 'leave things to the market'? What would it mean to 'leave things to the market'? And are state and market the only options? What are the roles of democracy and equality in economic development? Are these goals for the future or instruments of change? And what is it that we want when we speak of 'economic development'? Is it simply more material goods? Or is our concept of progress and change defined by a broader set of goals?

This book is motivated by these sorts of questions. Like many other people, I look at the remarkable change of the twentieth century and am stunned by the remarkable lack of change. So in the chapters that follow, I will say what I can that might make some contribution to overcoming the lack of change that has left so many of the world's people in material poverty and degradation.

Primarily, what I have to say is an argument for organizing our economic lives democratically. One basis for this argument is that democracy is a good thing in itself. In addition, if people organize their economic lives democratically, then they will be likely to achieve economic development. Democracy is an effective means by which to obtain material well-being for society. Organize economic affairs democratically, and you get two 'good things': democracy and development.

When I advocate 'democracy' as the basis for an economic development strategy, I mean political democracy as it is usually understood: elections, civil liberties and the right to organize. But beyond these essential forms of democracy, I mean something more substantive. A democratic economic development strategy is one that puts people in a position to participate in decisions about and effectively exercise political power over their economic lives. It puts people in a position where their lives are not dominated by either the market or the state. A democratic strategy also delivers the benefits of development to the population generally (what else could be the result of people having effective power?) and thereby enhances their power.

The economic development that lies at the base of my argument is also broadly conceived. It involves economic growth, the increase in the amount of goods and services available to a people. But it also involves something more: an improvement in the basic standard of living of the great majority of the people, something that can be accomplished only with a relatively equal distribution of income; the preservation, and repair, of the physical environment; the maintenance and strengthening of social community; and broad participation in decision-making about political, social and economic affairs.

The argument that I will develop in this book is very much at odds with the orthodox view that has dominated the discussion of economic development in recent decades. Much of what I have to say can, in fact, be summed up in the simple proposition that *there are alternatives* to the current orthodoxy.

Events that emerged around the globe in the late 1990s have made the search for alternatives all the more urgent and have forced a widening of the discussion of development issues. In 1997, at a time when it seemed that there were virtually no effective challenges to the economic liberalism that was often called the 'Washington Consensus', financial disruption spread through East Asia. Financial disorder very quickly turned into widespread economic crisis, sending South Korea, Indonesia, Malaysia and Thailand into sharp depressions, affecting virtually all countries of the region, and threatening the economies of countries around the globe. Both the crisis itself and the rapidity with which it spread were generally viewed as a result of the way many countries had developed unregulated connections to international financial markets. These financial policies were a hallmark of the liberal orthodoxy that had been pushed by the International Monetary Fund (IMF), the World Bank and the US government in the preceding years. Then, as efforts by the IMF to manage the Asian crisis only made it worse, the entire orthodoxy came up for criticism and reassessment. By late 1998, even the World Bank was joining the attack against the IMF; though the Bank's attack was confined to tactical issues, it abetted the more general questioning of what had been widely accepted economic policies.

The economic difficulties that began to undermine the credibility of the Washington Consensus in the late 1990s were by no means confined to East Asia. Continuing economic instability in Latin America, the widespread development failures in Africa, the débâcle in Russia, and the weakness of the South Asian economies have all played roles in creating the opportunity for a new discussion of economic development policy, a new search for alternatives.

While the problems of orthodox economic liberalism have become increasingly apparent, it is also evident that older orthodoxies that placed the state in a dominating economic role are not viable. The various sorts of state-guided development that were pursued in many low-income countries up until the 1980s had, at best, an erratic economic record; and often where they achieved well-recognized economic growth successes, as in South Korea, Brazil or Indonesia, those successes came along with authoritarian, repressive, military dictatorships. Also, in East Asia, where state-led development had its most enduring economic growth accomplishments, the crisis that appeared in the late 1990s undermined confidence in

that approach to economic policy. As to the communist version of statist economic policy, the demise of the Soviet Union provided a final death blow.

Thus, as the twenty-first century opens, it is both possible and necessary to consider alternative economic development strategies. I will devote much of this book to the question of alternatives, by both providing a conceptual foundation on which to build alternative policies and setting out in concrete details many elements of a democratic economic development strategy. In spite of the events I have noted in the previous paragraphs, however, the liberal orthodoxy that has defined the direction of economic development policy in recent years is not dead. The early part of this book will accordingly provide a critique of that orthodoxy, a critique that will establish a foundation for the examination of alternatives. To begin to get at the issues of the book and introduce the outline of what is to follow, let me say a bit about the orthodox policy and positions that have increasingly come to dominate discussion of economic development in recent years.

Neo-liberalism and Alternatives

The economic policy that became dominant in most of the world during the final decades of the twentieth century has given greater and greater rein to unregulated, private decision-making. The policy calls for reducing the economic roles of government in providing social welfare, in managing economic activity at the aggregate and sectoral levels, and in regulating international commerce. The ideas at the foundation of this policy are not new. They come directly from the classical economic liberalism that emerged in the nineteenth century and that proclaimed 'the market' as the proper guiding instrument by which people should organize their economic lives. As a new incarnation of these old ideas, this ascendant economic policy is generally called 'neo-liberalism'.

While the basic tenets of neo-liberalism operate in the rich countries, the policy plays its most powerful role in many of the low-income countries of Latin America, Africa, Asia and Central and Eastern Europe. Within these countries, influential groups see their fortunes tied to neo-liberalism, but the conflict over economic policy is seldom confined within a nation's borders. Officials from the international lending agencies, particularly the IMF and the World Bank, from the governments of the economically advanced countries, particularly the United States, and from private internationally operating firms use their economic and political power to foist 'market-oriented' policy on the peoples of the low-income countries. (The use of the term 'Washington Consensus' to sum up the neo-liberal prescription underscores the role of the US government, the IMF and the

World Bank in its promulgation, as well as the complementary role of various US research and policy institutes in providing intellectual support; see Williamson 1990.)

This rise of market-oriented policy is a major obstacle to democratic economic development. By reducing explicit social regulation of private economic activity and 'leaving things to the market', neo-liberalism prevents the implementation of programmes that would allow people to exercise political control over their economic affairs, involve people in solving their own economic problems, and serve the material needs of the great majority. A long list of development initiatives that could be democratic in this sense – of the people, by the people and for the people – are proscribed or severely limited by neo-liberalism. For example:

- A programme to protect the viability of small-scale producers of basic foodstuffs would not be developed because its implementation would require restrictions on imports or subsidies to the small-scale producers, and thus the programme would directly interfere with markets.
- Efforts to extend the rights of wage workers, secure their union power and protect their health and safety would be very limited because such efforts would restrict the operation of markets.
- Programmes to preserve the stability of local communities, in both rural and urban settings, would be greatly hampered because the market has no way of valuing the social bonds of community life, and thus they have no role in a neo-liberal programme.
- Direct efforts by the government to provide employment through, for example, public works programmes or public enterprises are not implemented because in the neo-liberal scheme of things production activity must be left in the private sector.
- Reconstruction and protection of the natural environment would be severely constrained because environmental issues are not readily valued in private market operations and, what's more, require extensive government involvement in the economy.
- The rapid expansion of literacy programmes and other educational efforts would be hampered because they would require a major role for the public sector.
- Likewise, heavy investment in health-care programmes runs contrary to neo-liberalism's prescription of a minimal role for government in economic affairs.
- Programmes directed at improving the distribution of income would be greatly limited, if not ruled out all together, because they could not be accomplished without extensive government intervention in the economy.

In spite of the fact that it would prevent the adoption of these sorts of democratic development programmes, programmes that would meet the basic material needs of the majority, neo-liberalism continues to define the policy agenda in many countries. It is easy to conclude that the governments of these countries have little interest in promoting either democracy or the material needs of the majority, and there is no doubt that neo-liberalism is often used as an ideological cover for powerful, elite groups to pursue their own, narrow interests. However, the issue cannot be dispensed with quite so simply because the advocates of neo-liberalism argue that, in fact, their policies will serve democratic goals. They claim that their policies, however much dislocation and pain they may cause in the short run, will lead to a higher standard of living in the long run. This higher standard of living, they then maintain, is the key to democracy. Neo-liberals also argue that the sorts of programmes listed above – programmes that would serve the immediate economic and social needs of the majority – and a broader democratic system of economic development are not viable. The neo-liberals maintain not simply that their favoured development policies are best. *They claim that there is no alternative.*

In large part, this claim that there is no alternative is based on the argument that the ‘globalization’ of economic affairs forces virtually all countries of the world to embrace the world market if they wish to achieve economic development. Globalization in the current era has involved, first of all, a progressive deregulation of the international movement of goods and capital. Also, globalization today is taking place in a world which is more and more uniformly capitalist. In this homogenized world economy, businesses can do the same things in the same ways at a great variety of locations, and, with the declining regulation of international commerce, they will accordingly continually relocate to the lowest cost production sites. Thus, the neo-liberals contend, if the government of a particular country attempts to regulate private activity in order to achieve some desired social goal – greater income equality or environmental preservation, for example – businesses will simply leave the country for higher profits elsewhere in the world. On the other hand, the argument continues, if a country eliminates both external and internal barriers to commerce, globalization will allow it to reap the benefits: low-cost goods from abroad, access to foreign markets for its own exports, and higher levels of investment by both foreign and domestic businesses.

This argument, the ‘logic’ of globalization, has been applied over and over again. In post-apartheid South Africa, for example, when popular movements have demanded social policies that would directly improve the material conditions of the majority, they have been told that they must wait. Direct improvements would require programmes to redistribute

income – heavily progressive taxes, minimum wages, and land reform, for example. Also, programmes designed to meet the immediate needs of the majority would involve the government, either directly or through heavy regulation, in production – for example, in building housing. All of this would be anathema to private investors; South Africans with capital would take it out of the country, and foreigners would not invest in South Africa. So, argue the neo-liberals, efforts directly to improve material conditions of the majority would be thwarted by the ‘logic’ of the global system.

Similar arguments were applied in Mexico during the debate over the North American Free Trade Agreement (NAFTA) in the early 1990s. Advocates of the agreement maintained not only that this opening of international trade was the best policy, but that it was the only policy that could bring economic development to the country. If Mexico did not accept NAFTA, its proponents claimed, the country would be frozen out of the globalized economy. It would not have access to international capital markets; its exports would be seriously restricted; and imports would be costly. Efforts to restrict foreign investment and trade had to be ruled out because they would alienate both foreign and domestic investors.

The situation in the former Soviet Union and Eastern and Central European countries after the demise of the communist regimes affords another example. At the beginning of the 1990s, a large segment of the population favoured political democracy and a maintenance of the social welfare programmes that had been established during the communist era. Many people looked to Scandinavia as providing a ‘third way’, an alternative to both the oppressive statist systems that had been thrown off and the inequality and instability of a market system. Yet political leaders in these countries, their advisers from the IMF, the representatives from international business and officials from the wealthy nations all proclaimed that an unregulated market economy was the only option available. The freedom of the market was essential, they claimed, in order to overcome the inefficiencies and distortions of the old regime.

Still another example is provided by the Haitian experience in the mid-1990s. When, after decades of dictatorship, Jean Bertrand Aristide ran for President of Haiti, he campaigned against neo-liberalism generally and the programmes of the IMF in particular. Aristide was elected in 1991 with two-thirds of the vote, was ousted a few months later by a military coup, and then was returned to power by the US military in 1994. Back in the presidential palace, Aristide began to accept the neo-liberal platform. The IMF, World Bank and the US government asserted that no other course of action was possible – and if their analytic arguments were not sufficient, the leverage of financial assistance and military support carried the day. There was no alternative.

In all of these cases the rhetoric of neo-liberalism has been considerably stronger than the reality, and many countries have moved slowly if at all towards the neo-liberal policy regime. Behind the rhetoric of neo-liberalism, large firms and wealthy individuals have often enriched themselves through favours from the government. What's more, although neo-liberalism touts a minimal role for government in economic affairs, it generally depends upon a very strong, repressive government. Because it would deny gains to the majority in the name of longer-run economic growth, implementation of neo-liberal policy generally suffers strong popular opposition that can only be contained with military or police action. Chile, which is sometimes presented as a success story for market-oriented policies, provides a prime example. While the success of that policy is open to question, there is no dispute over the fact that its implementation took place under a harsh military dictatorship. Likewise in Mexico, the implementation of neo-liberalism – for which few people were making great claims of success after the financial collapse at the end of 1994 – depended on the power of an authoritarian state. (Mexico also provides perhaps the best example of the way well-connected individuals were showered with government favours that turned several into billionaires while their benefactors in government preached the gospel of neo-liberalism.) Nevertheless, although the implementation of the neo-liberal programme may be uneven and the claim of minimal government is belied by the repression that implementation requires, the move towards a reduction of traditional economic roles for the state and a deregulation of market activity has become a powerful, global phenomenon.

This book argues against this powerful global phenomenon of neo-liberalism. To achieve my primary purpose of establishing the validity and desirability of organizing our economic lives democratically, I am going to have to refute central aspects of neo-liberalism along the way. Contrary to the claims of its proponents, there are alternatives to the neo-liberal course, and these alternatives are far preferable both in terms of immediate and long-term consequences.

As powerful as neo-liberalism is, however, it is not a monolithic ideology. The advocacy of 'market-friendly' policies comes in various forms, and even within those institutions that are most active in pressing neo-liberal policies around the world – the IMF and the World Bank – caveats, qualifications and modifications of neo-liberal doctrine have emerged. Especially in the wake of the East Asian crisis in the late 1990s, with the World Bank and the IMF publicly at odds over the proper tactics to pursue, divisions have appeared in the ranks of neo-liberalism.

During the 1980s, Ronald Reagan and Margaret Thatcher established an international political climate that allowed the spread of neo-liberalism

in an extreme form. The demise of the Soviet Union gave further impetus to extreme arguments about the limits of state action in economic affairs and the miracles that could be performed by markets. Yet even ideologues are forced, eventually, to take some account of reality. One especially important aspect of reality was the great economic success of several countries in East Asia that could not be explained by the extreme neo-liberal position because in that success the states of the region played such important, directing roles in promoting economic growth. In its 1993 report, *The East Asian Miracle*, the World Bank attempted to reconcile its neo-liberalism with the reality of experience in the region. The report attempted to limit the damage by arguing that the East Asian experience was not readily generalizable and, in any case, the role of the governments was, according to the Bank, properly characterized as 'market-friendly'. The Bank was nonetheless forced to acknowledge the positive role that an active state could play in economic development.

The neo-liberal revisionism in the 1990s has been further developed in the Bank's annual *World Development Report* and in various articles and speeches by World Bank and IMF economists. In its *World Development Report 1997*, for example, the Bank acknowledges the essential role of the state in promoting and providing the framework for economic development. Furthermore, in 1998 the Bank's chief economist claimed that 'we have broadened the objectives of development to include [in addition to economic growth] other goals like sustainable development, egalitarian development, and democratic development' (Stiglitz 1998a). Both World Bank and IMF top-level economists have recognized that a relatively equal distribution of income can be a foundation for successful economic growth (Stiglitz 1998a, 1998b; and Fischer 1995).

This revisionism in the Bank and the IMF is certainly positive, partly simply because it brings official doctrine more into line with reality but also because it contributes to the legitimacy of egalitarian, democratic and environmentally sound economic programmes. Moreover, in part this revisionism has been a response to pressures from international democratic movements. For example, in recent years the World Bank has given increasing attention to gender issues in economic development, and the Bank has in some cases attenuated its long-established practice of backing huge water control projects.

Nevertheless, this revision of ideology has not dramatically altered the approach of these institutions to economic policy. As the predominant international lending agencies, the Bank and the IMF have great influence over polices in many nations, and they consistently use this influence to push policies guided by central propositions of neo-liberalism, policies that lower governments' spending and open nations' economies to international

trade and investment. The former tends to reduce social programmes that would be the foundation for egalitarian and democratic development. The latter undermines the possibilities for the social control of economic activity, a control that is necessary to promote both positive social policies and effective technological change. Furthermore, the ideological revisionism in the Bank and IMF is usually accompanied by reaffirmation of central propositions of neo-liberalism (Stiglitz 1998a, 1998b; and World Bank 1997).

Although the revision of neo-liberalism has not altered either the basic policies of the IMF and World Bank or the basic arguments of the ideology itself, it does complicate the chore of developing a critique of neo-liberalism. The caveats, modifications and qualifications can obscure the core of the ideology. Similarly, a critique of neo-liberalism is complicated by various developments in mainstream economics. Major propositions of neo-liberalism that I will deal with in the following chapters are today the conventional wisdom of economics as it is presented in most English-language textbooks. (English-language economics textbooks are important because of the dominant, perhaps domineering, role of Anglo-American economics.) Yet at the same time, much of this conventional wisdom is in direct conflict with positions that have been well established in the foremost, mainstream English-language professional journals (Gordon 1994). For example, while economics textbooks argue the case for free trade, it is now generally recognized, as I will discuss in Chapter 2, that one cannot defend free trade as an optimal policy simply on economic grounds. Similarly, while textbooks often argue the case that economic growth is dependent on policies that increase income inequality, articles in the professional journals have established rather clearly that empirically there is no positive relation between inequality and growth and perhaps the opposite is true – a matter I will address in Chapter 3. On the one hand, the journal studies are useful in aiding a refutation of the conventional wisdom. On the other hand, the studies reported in the journals can be used to deflect the refutation with the claim that they have sufficiently qualified the conventional wisdom. Yet the conventional wisdom of mainstream economics expressed in texts, like the practices of the World Bank and IMF, remains largely unaffected by qualifications and revisionism.

Thus it is both legitimate and important to develop a full-fledged critique of neo-liberalism. In its basic propositions it is an ideology that is still clearly alive and, in spite of its retreat and modifications in recent years, is playing a central role in shaping and rationalizing policies that are pursued in many countries. It is largely incorrect or misleading, or both, in the view of the world that it promulgates. As a result it shapes a view of economic affairs that is highly detrimental to the creation of an

egalitarian development programme. Neo-liberalism, in its extreme or revised form, presents us with a view of the world in which there are only two choices, an economy organized by markets or an economy organized by a dictatorial – or at best inept and inefficient – statist bureaucracy. When the choices are framed in this way, many people will accept the conclusion that there really is no alternative to submitting to the world of markets. In the remainder of this book, however, I will argue that there is another way to understand the situation, a way in which the world of markets does not offer a meaningful or positive option and in which there is the option of a democratic economic development strategy.

Plan of this Book

In Part I, I will focus first on neo-liberalism, particularly on some of the central myths that are the foundation of the neo-liberal argument. Although neo-liberal policy holds sway because it serves the interests of powerful groups, its effective operation depends upon its widespread ideological acceptance. Like other ideologies, neo-liberalism relies on a set of myths about history and about the way the economic world works. My purpose in chapters 2 and 3 will be to examine some of the central myths about the market and show how and why they are false. In Chapter 2, I will discuss the ‘free trade’ myth, the claim that international commerce without government regulation holds the key to successful economic expansion. In discussing international commerce, I will also examine the role of globalization and the extent to which this phenomenon really does eliminate alternatives to neo-liberalism. In Chapter 3, I will deal with the relationship between income distribution and economic growth and attack the seemingly paradoxical neo-liberal myth that substantial inequality is necessary for economic growth and economic growth brings about greater equality. These sets of myths about international trade and income distribution, while not the entire foundation of neo-liberalism, are central pillars on which the ideology is erected. Without them, the whole neo-liberal edifice cannot stand.

The neo-liberal ideology is also held together by a belief in the legitimacy of markets. To establish this legitimacy, neo-liberals treat markets, usually without explicit acknowledgement, as existing outside society and outside history. ‘The Market’ is simply there, to be called upon as the arbitrator of human affairs. We are told to ‘leave things to the market’, as though in doing so we will necessarily achieve a socially desirable solution. In Chapter 4, I will argue that *the market is a historically contingent phenomenon*. At any given time, market relations involve a set of arrangements – property rights, physical and social infrastructure, a distribution of income

and wealth, and a set of rules and regulations – that reflect history as it has come to us, as it has been created by ourselves and those who have come before us. Like history, the market is not a fixed institution, but is continually evolving. Also like history, it has no particular legitimacy. The invocation that we ‘leave things to the market’ is no more reasonable than the demand that we accept history as it has come to us. In order to establish these points, I will devote considerable attention in Chapter 4 to explaining basic aspects of what markets are, how they operate and their connections to social relations more generally.

Chapter 4 thus provides some conceptual cohesion for the arguments of preceding chapters, and it also establishes a foundation on which to develop alternatives to market-based policies. Once I have explained this historical construction of the market, I will have set the stage for talking about conscious intervention in history. Arguing in Chapter 4 that markets are socially constructed, I intend to lay a basis for the discussion in Part II about the different ways they can be constructed (which includes how they can be limited and constrained).

In Part II, I will present a strategy for democratic economic development, explaining in some detail how it could be organized. Chapter 5 provides a framework for examining alternatives, first, through an examination of how democratic economic development is most usefully defined. Here is where I elaborate on the definition of development referred to above, and also where I say something about the meaning of democracy in the development context. Beyond clarifying the meaning of these important concepts, I want to establish the point that, while economic growth is a necessary part of development, any programme that would meet the material needs of the majority of the people must include a multi-dimensional set of goals. This set of goals includes: economic and social equality, environmental restoration and preservation, the security and social cohesion of communities, and popular participation in social, economic and political affairs. Even if economic growth is accomplished, this does not assure that other, equally essential goals will be attained. Also, if isolated from a broader set of social goals, economic growth itself is likely to become a chimera.

In Chapter 5, I will also explain the context in which I will present a democratic strategy. I am concerned with economic policy that is realistic. As compared to the way ‘policy’ and ‘realistic’ are usually interpreted, however, I will define ‘policy’ more broadly and ‘realistic’ rather differently. With regard to policy, I am not simply concerned with what governments should do (policy in the usual sense), but also with the economic changes that could be pursued by popular social movements. As to my criteria for a realistic strategy, I will argue that it must be realistic in the sense that

its promise of social change is real, that it can gain popular support and that it is economically (or technically) feasible without a prior change of the economic system. This matter of 'policy that is realistic' lies at the heart of my argument, and I will discuss it further here in Chapter 1 as well as in Chapter 5.

Chapter 6 takes up macroeconomic policy in the usual sense, dealing first with the question of where the money would come from to pay for the social programmes that would lie at the heart of a democratic development alternative. The claim that 'there is no alternative' to neo-liberalism rests in large part on the contention that efforts to push economic life in a more egalitarian direction would lead to macroeconomic instability, disrupting economic growth, and thoroughly undermining the egalitarian efforts. In Chapter 6, I refute this claim.

It is then possible in Chapter 7 to turn to the central aspects of a democratic alternative, social programmes that would both serve people's direct needs and provide a foundation for long-term economic well-being. While I will discuss the general role of social programmes and will also comment on a variety of particular types of programmes, I will give major attention to education. Education or, more precisely, schooling is widely recognized to play a very important role in economic development, but the focus of the discussion about education and development is usually narrowly quantitative. I will argue that in shaping a democratic economic development strategy the qualitative aspects of education are also of great importance. The same is true, I will suggest, of other social programmes as well.

In Chapter 8, I will give attention to policies that would shape the private sector in a democratic strategy. This alternative that I am discussing is one in which markets still exist and in which the private sector continues to play a large role. Society, operating partly through the state and partly through the organizations of civil society, would none the less take an active role in giving direction to the private sector. After setting out some principles that would guide the way in which policies towards the private sector could be structured, I will examine some particular investment incentive programmes and then turn attention to programmes that would encourage local production – that is, programmes that would regulate international commerce. A unifying idea of Chapter 8 concerns technology, and I will argue that a democratic strategy is one that would push the private sector along a 'high road' of technological progress. Also, I will argue that an important factor guiding regulation of the private sector is a recognition of the value of local production.

In concluding the book, in Chapter 9, I will offer some comments on the political problems associated with an effort to establish a democratic

economic development strategy. I will not pretend to offer a prescription for political strategy, but will only suggest some of the basis for the political work that could lead towards democratic development. At the centre of my argument is the proposition that people can take advantage of the democratic openings in society to build popular organizations; these organizations can increasingly involve people in having a say in the economic and social programmes that affect their lives; and thus the organizations and the people in them can become the agents of change. Also, however, the problem of democratic development is an international problem, and imperialism, in many forms, limits change. Thus, to bring progress, forces pursuing democratic development must work towards a globalization of their politics.

The Political Context of Economic Alternatives

In proposing 'economic alternatives', my goal is to conceive of alternatives that are practical in the sense that they could actually be implemented within the existing socio-economic framework and that are significant in the sense that they would bring about, or at least have the potential to bring about, substantial changes in the social organization and power. This is not an easily attainable goal.

On the one hand, arguments about economic development are usually confined to a relatively narrow set of alternatives. The choice among the different options is little more than a technical exercise because they do not involve significant differences in social structure or in the relative power and well-being of different groups. The entire discussion is based on the assumption that basic structures of social organization and economic power cannot be changed. For example, rural development programmes in low-income countries often focus on alternative technologies, methods of agricultural extension work and the ways in which infrastructure can be improved; they accept as given the existing land tenure arrangements. Another example is the debate in the 1980s over how low-income countries should meet their foreign debt obligations; the debate was based on the premise that the debt would in fact be repaid, and it then focused on such issues as methods of debt rescheduling, terms of new loans and the degree of support from the international lending agencies. These sorts of disputes involve disagreements over how a social economic system should be managed. They are not disputes over the nature of the system.

On the other hand, when discussions of alternatives do question the nature of the social system, they often become thoroughly impractical. Impractical ideas have their uses, and there are very good reasons to question the basic structures of society in the low-income countries of the world (to

say nothing of the basic structures in the wealthy countries). But in order to bring about change it is not sufficient to state what should be done. We need to begin with the question: What should be done? But it is also necessary to figure out what *can* be done. However desirable sweeping change may be, it is not enough to advocate revolution or particular programmes that have no chance of implementation without revolution. If the goal is to alter the nature of the system and make a real difference in people's lives, then we need to formulate and implement practical programmes that both improve economic conditions and challenge the structure of social-political power.

Programmes of this type are similar to what André Gorz (1964) dubs 'non-reformist reforms' or 'revolutionary reforms'. These are 'reforms which advance toward a radical transformation of society' and can be contrasted with 'reformist reforms'. In Gorz's terms:

A reformist reform is one which subordinates its objective to the criteria of rationality and practicability of a given system and policy. Reformism rejects those objectives and demands – however deep the need for them – which are incompatible with the preservation of the system.

On the other hand, a not necessarily reformist reform is one which is conceived not in terms of what is possible within the framework of a given system and administration, but in view of what should be made possible in terms of human needs and demands.

... a struggle for non-reformist reforms – for anti-capitalist reforms ... bases the possibility of attaining its objective on the implementation of fundamental political and economic changes. These changes can be sudden, just as they can be gradual. But in any case they assume a modification of the relations of power; they assume that the workers will take over powers or assert a force (that is to say, a non-institutionalized force) strong enough to establish, maintain, and expand those tendencies within the system which serve to weaken capitalism and to shake its joints. They assume structural reforms. (Gorz, 1964: 6–8)

Gorz was writing about the situation in the advanced capitalist countries – France of the 1960s, in particular – where political democracy prevailed and revolutionary change, in the sense of a violent insurrection, was clearly not on the historical agenda. The basic idea, however, is generally applicable in many of today's low-income countries where a substantial degree of political democracy exists and where there is no immediate likelihood of revolutionary upheaval. Gorz's formulation is helpful in establishing a set of criteria for democratic initiatives that would neither accept the system

as it is and focus on management nor define change in terms of impractical goals:

- Democratic initiatives – or ‘reforms’ or ‘programmes’ – must make a positive difference in people’s lives. They should not demand that a sacrifice be made in the name of some greater good; they must bring something good in themselves. Their goals are defined by what should be.
- Democratic initiatives must challenge the existing relations of power and authority and in some way move society towards a more democratic structure. They need not overturn or destroy the existing social structures. Yet in some manner they must pose a threat to the existing social and economic structures. The essence of this threat is that these initiatives expand the realm of democracy and enhance democratic authority.
- Democratic initiatives must be possible in the sense that their implementation does not require a prior revolutionary, structural reorganization of society. They may set in motion a process of change that pushes society in the direction of dramatic structural reorganization – that is precisely their point. Yet, because they are particular and partial and therefore are not themselves dependent on that reorganization, they are possible.

Gorz’s non-reformist reforms or democratic initiatives are not in conflict with revolutionary upheaval (and Gorz himself certainly did not see such a conflict), but they are not themselves the programme of a revolutionary upheaval. The politics of the relationship between a revolutionary struggle and a struggle for non-reformist reforms would be complex. It is not an issue I will deal with in this book. Suffice to say that in most of the world’s low-income countries, where some political democracy exists, revolutionary upheaval is not an immediate issue as the twenty-first century opens.

Although in Part II of this book I will examine democratic initiatives within the context of a discussion of an overall democratic economic development strategy, in order to introduce the issues here it will be useful to say just a bit about one such initiative that I will deal with towards the end of Part II. Consider a programme to protect the viability of small-scale producers who have traditionally played a major role as food suppliers. In many parts of the world, a large percentage of the population lives in rural areas and is immediately involved in agriculture; also, poverty, including low levels of food consumption, is concentrated in the rural population. So a policy that promoted the viability of small-scale producers could directly raise the incomes of the rural poor, supporting them as

producers and as consumers. The policy could provide some stability for the large rural population and could strengthen rural communities. Stronger rural communities with a growing stake in agriculture could be a foundation for improving environmental conditions. By creating a better situation in the countryside, a programme of this sort could slow rural-to-urban migration and be a first important step in dealing with the country's urban problems as well. Also, for a food programme to work, it would require extensive organization of the rural population, providing, for example, an impetus to the emergence of cooperatives. For all of these reasons, a programme protecting the viability of small-scale producers would be defined in terms of social needs.

At the same time, protecting the viability of small-scale producers would conflict with and challenge the principle of minimal regulation of markets. For in order for the programme to be effective, it would be necessary to protect local food production from competition with imports or provide direct subsidies to local agriculture or both. Market advocates would argue that unregulated markets would provide the population, including the poor, with the lowest cost foods, and therefore be preferable to a policy involving regulation. Yet this sort of argument ignores the non-market gains, such as stabilization of rural communities and the emergence of rural co-operatives, that could come with a food support programme. Also, a market food policy would mean that the food supplied would be disproportionately the food demanded by the wealthy, and that would entail a pattern of production and foreign trade in conflict with social goals. Finally, reliance on market policy would not take sufficient account of the changes in the organization of rural production (the changes in technology) that could take place over time as a result of the structural changes involved in a programme that would protect the viability of small-scale producers of foodstuffs.

So an initiative to support the viability of small-scale food producers would be a 'non-reformist reform' in Gorz's sense. It would serve social needs, which is why it is worth pursuing, and it would challenge the existing economic structures. It could be a good thing in the short run, and it could generate positive social change and economic expansion in the longer run. Also, such an initiative would be possible in the sense that it could be implemented in many places without prior revolutionary or major structural socio-economic change.

The challenge that a programme to support small-scale farmers, or any other democratic initiative, presents to 'the logic of capital' does not depend only on the content of the reform. In addition, the means by which a particular reform is developed and implemented is an important basis for challenging the status quo. It makes a great deal of difference, for example,

whether the peasants of a country are presented by government authorities with a programme to support their viability or are themselves engaged *from the start* in the formulation of that programme, whether the programme emerges through the formal organs of political authority or arises as a consequence of popular struggle, whether the programme relies primarily on support and direction from above or leads peasants to build primarily on their own resources. Even where significant political democracy exists, and certainly where it does not, maintenance of the status quo depends upon people being excluded from involvement in the economic decisions that affect their lives and in the formulation and implementation of economic policy. Regardless of the content of reforms, if the method of reform does not challenge the alienation of most people from control over their economic lives, its positive, democratic implications will be limited. Democratic initiatives, non-reformist reforms, cannot simply be for the people; they need to be of the people and by the people as well.

Yet how is it possible to implement economic programmes, such as a support programme for small-scale farmers, that challenge the structure of social-political power? Won't such programmes be squelched by the people who actually hold power and do not want to see change? Isn't that what it means to 'hold power'? Well, no, it turns out that power is seldom if ever so clear and absolute. For example, even during the era of apartheid in South Africa, there were niches of opposition activity in the trade unions and elsewhere. In Brazil, during the military dictatorship that lasted from the early 1960s to the early 1980s, reform struggles that challenged the structure of power began to emerge during the 1970s in unions and in the Catholic Church. In many other dictatorial situations, examples exist where opposition groups could throw up challenges, however limited, to the existing authorities. Yet in the circumstances of dictatorship, where not even a façade of democracy exists, policy can be contested only within a very narrow realm, and doing so always carries a high degree of risk. These dictatorial situations are not, then, what I am dealing with in this book.

In many countries of today's world, however, political democracy, sometimes only a façade and sometimes much more than a façade, does allow substantial space for the articulation and even implementation of alternative economic initiatives. In much of Latin America today – in Brazil, Chile, Mexico, Haiti and Nicaragua, for example – it is possible to push initiatives that would both amount to practical reforms and challenge existing authority. Post-apartheid South Africa is another example, a particularly important one because of the political attention that the country has received over the years. India, as the experience in the state of Kerala amply illustrates, is another case where it is possible to implement reforms

that both improve people's lives and challenge the existing structure of power. In addition, in several countries, regardless of a lack of effective democratic political forms, power is in flux. Different groups are vying for control over the political apparatus, and, while political democracy is very limited, the unstable political situation opens up possibilities for mounting democratic initiatives. Many of the former communist countries fall into this category.

These sorts of situations, where some degree of political democracy or a certain amount of flux or both allow the political space of opposition activity, are the political context I am dealing with in this book. They are situations where it is meaningful to talk about structural reforms and to take practical steps towards democratic initiatives. (Proposing structural reforms or democratic initiatives in a context where they are not practical – in a dictatorial political environment, for example – is not necessarily useless. It is often useful to articulate politically impractical proposals; they can expose the regime and inspire opposition. Also, in a revolutionary context, concrete proposals can be useful in establishing a programme that could help gain support for the revolution and serve as a guide after the change of political power. But proposals in these sorts of dictatorial or revolutionary situations are not the same as putting forth practical programmes, which is my concern here.)

The Limits of State Action

An attack of the sort I am mounting in this book on neo-liberalism and on market-based economic policies might be interpreted as an argument for a powerful state. Advocates of market policies present their position as an alternative to reliance on the state, and many opponents of market policies have offered state planning as their alternative to the market. Yet it is highly misleading to present the state-market relation as a simple dichotomy and to ignore mechanisms of economic organization that are neither market institutions nor fully state institutions.

Market-based economic policies, as I have pointed out above, generally rely upon strong states. As I will argue extensively in Chapter 4, in market societies the state plays a central role in constructing and organizing markets. Even when the state does not intervene directly in markets, its indirect interventions are essential and permeate economic affairs. Markets are always infused with state actions, and the neo-liberal position is not in reality an advocacy of a weak state; it is an advocacy of a particular kind of strong state.

Strong states, whether under a neo-liberal or explicitly statist rubric, present problems for any advocate of democracy. In a great variety of

settings, powerful states have maintained themselves through political repression, have established bureaucracies that usurp popular authority and have diverted resources from socially useful functions. Sometimes they operate as the representatives of a dominant class or coalition of elites, and other times they are relatively autonomous. In the communist countries and in many low-income countries during recent decades, the state has been openly hostile to political democracy. In the advanced capitalist countries, the state has generally embraced formal political democracy, but has relied on bureaucratic control and the thoroughly undemocratic structure of economic life to limit the diffusion of power (and also on numerous occasions has not shied away from repression). Any glance at history – even leaving aside such horrors as the Nazi genocide, the ravages of Stalinism, the slaughters of indigenous peoples and the sponsorship of slavery by several states – can uncover a long list of state atrocities. There is good reason why the neo-liberal attack on the state finds popular resonance. Even when we recognize the importance of strong state action to limit or eliminate the social devastation and inept operations of markets, limits on state power should still be an important concern.

The specific initiatives that I will present later in this book often depend on state intervention in the economy. The state, whatever other roles it may play, is a central mechanism that society has for collective action. Also, only a powerful state would be able to control powerful private actors, and only a strong state would be able to raise sufficient funds (taxes) for the social programmes that are essential to democratic economic reforms. So, as much as our experience with state power raises problems, the importance of the state is a reality that cannot be wished away or ignored. What might be possible, however, is to formulate democratic initiatives that are alternatives to the market strategies and also build popular autonomy and people's independence from the state.

In all societies there are alternatives to markets that do not rely principally on the state. Even in the most advanced capitalist societies, as I point out in Chapter 4, a considerable amount of economic activity takes place outside the market: in families, in volunteer associations, among friends, between the citizens and the government, within firms and within governments. A great deal of this activity does not involve the state, and often where the activity formally falls within the state domain institutions operate with considerable autonomy. These activities which fall outside the market and outside the direct authority of the state remind us that such activity is possible.

One place where we might look for a useful illustration of such activities is in primary, elementary and, perhaps, secondary public schools, not as they generally exist but as they sometimes exist and as many people would

like them to exist. (I am using the term 'public schools' in the US sense of the term; the British equivalent would be 'state schools'.) Public schools are formally a part of the state. Yet it is widely recognized that effective public schools are embedded in the communities where they exist, involving considerable parent participation. Effective schools, while an arm of the state, are also an arm of local communities. They are effective in part because students feel the schools are their own. The community influences the organization of the schools and affects issues of resource allocation within the schools through a variety of mechanisms, ranging from the election of school boards ('governing bodies' in Britain) to direct parent involvement. The state, both through its local and centralized structures, also affects the operation of schools and usually has ultimate authority over them. Yet when they are embedded in the community, they are not simply state institutions. Similarly, in a market society, the market has a great deal of influence over what goes on in the public schools, but they are certainly not market institutions. They are a relatively autonomous social 'space' in which economic decisions are made outside the normal channels of state and market, though fully independent of neither. (The emphasis I place on education in Chapter 7 is partly motivated by this view of schools as a potentially autonomous 'space,' and thus as basis for popular participation in development policy.)

Various cooperative enterprises – peasant production cooperatives, for example – provide another illustration of such relatively autonomous space. Cooperatives in market societies are connected to and formally part of the market (analogous to the relation of community-based schools to the state), and they are in part subject to the 'discipline of the market'. Yet their internal organization, their decisions about resource allocation, and their distribution of payments are not necessarily controlled by the same market 'logic' as an individually owned or corporate firm. Members of a peasant cooperative need not be simply profit maximizers, and their activities can be directed by a broader set of goals including, for example, the stability of their communities. Cooperatives also function within a framework established by the state and cannot ignore its regulations and demands, but they are certainly not state institutions. They offer the possibility of relatively independent 'space'.

Any effort to create a more democratic society is presented with the conundrum of how to influence and use the power of the state in this effort while at the same time limiting the power of the state. The examples I have just described, of schools and cooperatives closely connected to communities, give some suggestion of the solution to this problem, or at least of the direction in which a solution may lie. When the institutions of civil society are strong, popular authority is likely to be more effective

in both constraining the state and providing alternatives to market-based policies. Certainly one of the goals of any democratic initiatives should be to strengthen the institutions of civil society, both because the resulting popular participation is a good thing in itself and because it is an important insurance of wider democracy.

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