The Market Turn Without Neoliberalism

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The world financial crisis provides an opportunity to re-think the way forward to freedom and prosperity all over the planet, in richer countries as well as in poorer ones. The essential meaning of the crisis is that in an age of financial volatility, scarcity, and skepticism, most countries will have to walk on their own legs more than their governments and elites had wanted or expected.

In societies as different as Russia and Brazil, the call has gone out for a mobilization of national resources. The global capital market has been revealed as no savior, and the plain truth that countries must first help themselves in order to profit from help from abroad has been painfully driven home.

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But what does the mobilization of national resources require? The economies hit most severely by the crisis need to reinvent the arrangements connecting finance with the real economy. They need to make their prospects for sustained and socially inclusive growth less dependent on the whims of finance.

How can they achieve such goals without retreating behind protectionist barriers, into economic isolation? Or without resorting to a style of inadequately inclusive export-driven growth, brokered among political and business elites, that deprives most of the population of its benefits?

To put the matter this way is to recognize that today's financial crisis does what crisis has always done: It makes more urgent and obvious a need that existed before it arose. In much of the world, the search was already under way for an alternative to what has come to be called neoliberalism, an alternative that would make the market shift—the global turn to markets—more people-friendly than it has been so far. The search was more anxious in the developing countries, especially in those that have made the strongest commitment to joining the world economy. These are the same countries that have suffered most from the ravages of the world financial crisis. It is nevertheless a worldwide search. Everywhere people are asking whether the market revolution will lift up the many or merely enrich the few.

The Crisis Reconsidered

Unlike the crisis of the 1930s, today's crisis began in peripheral rather than central economies. Japan's remains the only major economy to have been shaken until now. The issues nevertheless transcend their origins. Academic debate has thus far focused on the secondary and the superficial: whether to limit financial volatility through exchange and capital controls or to persist in the opening of the global economy to free flows of
capital, and whether to extend or scale back bailouts by multilateral financial agencies like the International Monetary Fund. However, the larger meaning of the crisis lies in the questions it raises about some of the most basic features of the path taken by the commitment to market-oriented economies.

Saving and production, the money economy and the real economy, continue to be weakly connected in contemporary societies. The production system finances itself through retained earnings. Much of the productive potential of saving gets squandered in financial speculation and irresponsibility. Money gains to investors bear an uncertain relation to real gains to people in jobs, consumption, and production. As the financial markets ride the roller coaster of boom and bust, mania and panic, they can do real harm to the real economy. Can we diminish these evils by reshaping market economies in ways that draw saving and production, finance and industry, money and the real economy closer together? This is not a question that pure economic analysis can hope to answer, for the answer depends crucially on the different ways we can reorganize the market economy in fact—reorganize it, not just regulate it.

The development of a global economy has been informed by an unquestioned and almost unconscious doctrine of sharp contrasts in the steps by which capital and labor should gain the right to cross national frontiers. According to this doctrine, capital should win unrestricted freedom of movement right now and all at once. Labor should stay within the nation-state until, thanks to the gradual equalization of productivity and wages throughout the world, it no longer needs to move. The international financial crisis, however, casts suspicion on this selective view of economic freedom. It invites us to ask whether it might not be better for capital and labor to win freedom together, but to win it in small, incremental steps.

The Bretton Woods organizations have not only championed
free capital movement. They have also espoused pre-Keynesian monetary and fiscal orthodoxy in the service of worldwide convergence toward the economic and political institutions now established in the North Atlantic democracies and especially in the United States. They have mixed up the minimalist and necessary job of helping to keep the world economy open with the maximalist and controversial attempt to impose on all countries in need of their help a particular route to freedom and prosperity. The crisis, along with the unhappy role of the Bretton Woods organizations in its genesis and correction, strengthens the case for insisting upon international organizations open to diversity of vision and direction.

The Need for an Alternative

The world wants a progressive alternative, not a withdrawal into protectionism and populism. This alternative should join open markets to social solidarity, and do so through innovations in the ways free polities, societies, and economies are organized. Unlike conventional, institutionally conservative social democrats, we must not hesitate to experiment with new institutional arrangements for representative democracies, market economies, and independent civil societies.

Social assistance, although indispensable, is less vital than community organization. Success in securing for the individual the economic and cultural equipment he needs to function as an effective worker and citizen counts for more than a rigid equality of resources. Rebuilding practices and institutions to strengthen the individual and collective capacities to tinker and to transcend is what matters most of all.

A program like the one outlined here marks a direction rather than designing a blueprint. One of us comes to the statement of this program from a commitment to "social liberal-
ism," the other from an effort to explore radically democratic alternatives to contemporary institutions. We unite in support of a proposal that appeals to the skeptical as well as to the hopeful, and to the radicals of the center as well as to the heretics of the left.

The effort is timely because all over the world there has been a turn to the market economy. Is this market project really a conversion to the doctrine often labeled neoliberalism? The widespread turn to markets need not and should not mean adherence to the neoliberal program, nor require national governments to kowtow to international finance.

When we look more closely at each of the planks making up the worldwide platform of the market program, we discover that each lends itself to two readings. One recommends the familiar recipes of economic and political orthodoxy; the other anticipates a project that is as supportive of markets as it is open to institutional reform, even if the reform must be radical.

The first reading—call it neoliberalism—has the advantage of easy reference. It is the project of convergence toward the institutions and practices most characteristic of the North Atlantic economies. The Asian model has lost its aura. European social democracy is on the defensive and anxious to rescue a modicum of social protection from the rush to American-style "flexibility." The American version of the market economy, softened by a little more social protection than Americans have been willing to allow, has become the presumed goal of worldwide convergence. This is neoliberalism. If everything in today's economics manuals were true, the pathway this project lays out would be the preferred route to prosperity and democracy. In fact, it would be the only one.

The second reading—call it the alternative—has the benefit of giving shape to something most of humanity wants: economic
freedom and economic progress without social disinheriance. However, it is not simply an attempt to juxtapose the heritage of the welfare state and the familiar devices of economic flexibility. It is a productivist as well as a redistributivist program. It seeks to anchor its social commitments in the daily routines of economic life. It recognizes that, in much of the world, social progress continues to require rapid and persistent as well as inclusive economic growth. Moreover, it takes seriously the connection between economics and politics.

The goal is a deepening of democracy as well as a quickening of trial and error in economic, social, and political life; an economy more open to diversity of practices and institutions as well as of technologies and, therefore, better able to combine the two clashing and overlapping requirements of economic progress—cooperation and innovation; a polity more energized and, therefore, more oriented to the repeated practice of structural reform; and a society more evenly organized outside government and, therefore, more capable of generating different conceptions of its future and of acting upon them. Democratic deepening and democratic experimentalism are the watchwords of this alternative. Cumulative, sustained, and motivated institutional innovation is its master tool.

The neoliberal version of the market economy may favor the interests of big international businesses and transactions, weakening the practical and conceptual instruments of deviation from the one true way. However, the neoliberal program suits almost no one else. The world will remain restless under the sway of a doctrine leaving so little room for opposing interests and visions.

Consider how each of the major proposals we associate with the market turn looks different according to whether we interpret it from the standpoint of neoliberalism or from the perspective of the alternative.
Free Trade: Capital and Labor

According to the established understanding of the market turn, free trade means that capital, together with goods and services, should be free to roam the world. Labor should remain locked up within the nation-state or within blocs of relatively homogeneous nation-states such as the European Union. If enough capital moves from capital-rich to capital-poor countries, wages will converge and workers will no longer need to move.

The trouble, however, is that the vast majority of capital continues to stay at home. The relatively small amount that goes abroad does more to divide workers and frustrate governments than to raise wages. Long-lasting inequalities of returns to labor between rich and poor countries coexist with disruptive financial instability.

There is an alternative. Capital and labor should win freedom to cross national frontiers together and step by step. We need constraints on speculative financial trading across frontiers as well as more effective regulation of domestic financial institutions, selective controls on short-term capital flows, and international agreements among national governments, national labor movements, and multilateral organizations to make more migration possible and to minimize its disruptive effects. Instead of arrangements like the bracero program between Mexico and the United States (for migrant agricultural workers) or the inland colonies of the old South Africa, we need understandings and deals among the labor unions of the participating countries. Only then can the shared freedom of capital and labor be socially and politically as well as economically feasible.

In principle, transnational investment, together with the growth of international trade, could achieve much of the economic effect of migration if enough such investment took place quickly enough. However, it will not. If it did, with the necessary speed and in the requisite amounts, its political and eco-
nomic consequences would be even more destabilizing than those of the gradual but paired progress of mobility for capital and labor.

Let labor begin to move freely—that is a doctrine right for an age committed to making economic freedom available to all. The difficulties of establishing this principle are real. The benefits extend far beyond economics to changes in the role of national differences. More open to outsiders, nations should begin to define themselves less by the traditions they have inherited than by the distinct ways of life they may yet forge. The role of nations in a world of democracies is to embody moral specialization within humanity. Such a world recognizes that the roots of a human being lie as much in the future as in the past.

Privatization, Regulation, and Private-Public Partnership

Neoliberalism tells governments to get out of the business of producing through public enterprises. It advises them to give free rein to the decentralized trial and error of the market, the unrivaled wealthmaker. According to this neoliberal view, government should focus on what it can accomplish best: provide security, education, and basic health care or fallback health insurance; regulate business; and soften the social pain of economic adjustment by developing social safety nets.

We should reconsider this advice in the light of a striking feature of contemporary economies. Rich and poor countries alike are being torn apart by a deepening division between advanced and backward sectors of the economy. Traditional dual theories of development fail to illuminate the contemporary significance of this division. A worldwide network of productive vanguards has increasingly become the commanding force in the world economy. Advanced sectors of each economy, characterized less
by huge financial resources or physical capital than by flattened hierarchies, cooperative competition, and permanent innovation, trade people, ideas, and practices as well as products, resources, and services.

In each economy, the division between vanguards and rearguards has become the chief source of inequality and exclusion. If the majority of the population remains arrested in a productive rearguard, no amount of welfare assistance through

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conventional tax-and-transfer techniques will suffice to ensure greater equality and inclusion.

The advanced sectors barely need government to prosper on their traditional favored terrain. Governmental initiative becomes necessary when we want to help overcome the division between productive vanguards and rearguards, generalizing vanguardist practices in the economy as a whole. Arm's-length regulation is then no longer enough.

We need partnership between government and business, but not in the form of comprehensive industrial and trade policy formulated by a centralized bureaucracy. We need a radical expansion of venture capital, commercial credit, and technical assistance for start-up companies and small and medium-sized enterprises, but not subsidies or credit allocation according to plan and preconception. The goal is to redesign and expand the market, not to trump it in favor of bureaucratic dogmas and political clienteles. At present, the venture-capital industry of California and Massachusetts dwarfs venture capital in the rest of the world. What should be a central concern of finance re-
mains, almost everywhere, a marginal activity.

We need to fashion for the economy as a whole a decentralized and participatory alliance between public actions and private initiative. It is the kind of alliance that succeeded in organizing family-size agriculture from the mid-nineteenth to mid-twentieth century in countries as different as the United States and Denmark.

The solution, according to this alternative reading of the market turn, is to establish between governments and firms an intermediate level of organization: funds, banks, extension services, with a mixed public and private character, financially responsible and market competitive. Some funds might take equity stakes in the firms with which they deal, while preserving their independence and allowing the firms to keep theirs. Others might eventually become the financial and technical centers of little confederations of businesses that both compete and cooperate with one another. From these contrasting styles of association between funds and firms, many varieties of private and nongovernmental social property might develop, coexisting experimentally within the same market economy. There is not one market regime. There are many.

Saving and Production

Neoliberalism emphasizes the need to discipline public spending and to raise public-sector saving through budgetary discipline. However, neoliberals have been complacent or fatalistic about private thrift and sanguine about the use of foreign capital to make up for shortfalls of national saving. Moreover, they have been willing to leave the relationship between saving and production to take care of itself through the present system of banks and stock markets.

The alternative proposal to develop the market program takes
a different stand on each of these issues. Consider that last one first. Today, in mature market economies, the production system largely finances itself: A decisive majority of funds invested in production comes from retained earnings. Both initial public offerings and venture capital remain sideshows in the financial markets. Trades in these markets are supposed to contribute—mainly indirectly—to the financing of production, and indeed they do. However, it requires no primitive contrast between sterile and productive investment to admit that much of the productive potential of saving continues to be squandered.

The market-friendly alternative to neoliberalism insists upon tightening the link between saving and production. It wants to do so in one way by reforming the established system of banks and stock markets—for example, by extending the facilities for local and cooperative financial institutions able to take up the undone work of the start-up investor. It proposes to do so in another way by building, alongside this system, a second bridge between saving and production—for example, pension funds regulated to act as venture capitalists and turnaround financiers, with risks pooled and, when possible, securitized. The point again is not to replace the market but to reorganize it in ways that make it more experimental and, in a real sense, more of a market. What looks like a subsidy—trumping the market—may turn out to be an initial move in an effort to redesign the market, opening it to greater variety of agents and arrangements. Experience, not analysis, establishes the difference.

We learned from Keynes that supply fails to ensure its own demand. Now we must add the other half: Demand fails to guarantee its own supply. Demand management will often prove inadequate to generate supply expansion. One reason is that an increase of demand may appear unsustainable to those who must make the decision to produce more, the point emphasized by the monetarist critique of Keynesianism. It is, however, subsid-
airy to another, more basic consideration. This reason would be too obvious to mention did it not play so uncomfortable a role in economic theory.

The owners and managers of productive business are not a corps of social functionaries dedicated to bringing the greatest possible satisfaction to consumers. Their aim is to make money and rise in the world, not to act at the beck and call of buyers with increased spending power. Sometimes they may think they can make more money by selling more or better goods and services to consumers who have more resources with which to buy them. At least as often, however, other tacks will seem more enticing; for example, selling the same goods and services at higher prices and waiting to see what the competition does, or putting spare time and cash into financial speculation.

The more production depends for its funding on retained earnings—the portion firms keep from their profits rather than distributing to shareholders—and the less new and small businesses enjoy reliable sources of external finance, the greater is the likelihood that the supply response will be weak. Approaches to full employment will then fail to result in sustainable, noninflationary growth.

To provide the resources for a vast expansion of venture capital and decentralized commercial credit, we may need to increase private as well as public saving in many economies. We can do so through a scheme for the public organization of compulsory private saving, such as saving for retirement. Arrangements for compulsory private saving should make the saving obligation steeply proportional to personal income. This obligation should be combined at the lower levels of the income scale with its inverse: guaranteed minimum income, substituting for the salaries of those who cannot work and supplementing the salaries of those who do work but receive the lowest incomes. The funds receiving such compulsory saving payments should be inde-
pendently managed. They should operate both within the financial markets and, as venture capitalists, outside them.

Taxes, Welfare, and Grass-roots Participation

The market turn is supposed to require a commitment to low taxes as well as to social safety nets. The message is to protect saving and investment through a tax system that depends primarily on consumption. It is also to ease the extremes of economic insecurity through the modest, targeted social entitlements that such fiscal discipline may allow.

In rich and poor countries alike, conservatives defend consumption-oriented taxation with low tax rates. Social democrats support income-oriented taxation at rates steeply proportional to earnings. They hope against hope that political and economic forces will allow them to raise enough revenue to fund generous, comprehensive social entitlements.

There is nothing in the idea of a market economy or in the agenda of a democratic market turn that should commit us to minimize taxes and social rights. The market cannot create its own foundations: people with the health and education needed to become effective workers and citizens.

A central paradox of the neoliberal take on the market turn is that its benefits would be greatest and its dangers smallest where an earlier history of reform and revolution has overcome the extremes of inequality. In today’s Latin America, for example, neoliberalism might be least beneficial in the most unequal countries, such as Brazil and Mexico. It might be less dangerous to countries that have seen a protracted succession of conflicts and reforms strike down extreme inequality. However, the combination of a long, painful revolutionary history and a neoliberal epilogue is not one on which we can act. No one could or would choose it. The task of an alternative understating of the market
project is to supply the practical equivalent to this impossible combination.

One component of such an alternative is a commitment to consumption-based taxation at competitive high rates. This commitment results from the juxtaposition of three ideas.

First, the national government in a divided and hierarchical society needs high tax revenues in order to play its part in solving society’s problems. It is unlikely to be able to give people the means with which to develop themselves if it (and the other levels of government together) fails to take in at least 30 percent of gross domestic product (GDP).

Second, the most important lesson to be learned from contemporary fiscal experience is that redistribution takes place much more on the spending side than on the revenue-raising side of the budget. What matters in the short run is the aggregate level of tax revenue and the capacity-enhancing character of social spending.

Third, the transaction-based taxation of consumption, preferably through a comprehensive value-added tax (VAT) at a flat rate, supplies the most effective way to raise revenue while minimizing the negative impact on incentives to work, save, and invest. In many developing countries, where gasoline consumption is concentrated in the highest income brackets, an aggressive gasoline and luxury surtax may prove an especially effective way to supplement the VAT, combining as it does, a redistributive effect with a consumption focus. After we have secured high revenues by such means, we can hope to increase, little by little, the direct and steeply progressive taxation of each taxpayer’s expenditures.

A high level of social spending, sustained by a growth-friendly style of taxation, can help ensure both the fiscal discipline and the investment in people and their capacities that every country, rich or poor, needs.

Where should the money go? In developing countries, or in
the poorer sectors of richer countries, children and their ties to families, schools, and local communities should be the priority. The school can often provide a setting in which children receive medical and dental support, eye care, food supplements, and even proper hygiene, as well as education. The school should recognize children as the little prophets they are, giving them access to contrasting ideas and experiences rather than speaking as the obedient voice of the local community or the national bureaucracy.

As countries become richer, the core package of social rights should develop into a social inheritance. All citizens should inherit from society a minimal fund of resources, made available at turning points in their lives, such as receiving a higher education, starting a family, or opening a business. Imagine, for example, a basic social-endowment account set up for each individual. Such an account could vary upward according to two countervailing principles: increments responding to special needs by predetermined criteria and increments rewarding special capabilities, competitively demonstrated.

The relationship of these core rights and benefits to the unquiet experiments of a more vibrant democracy and a more diversified market economy is like the relationship between the love a parent feels for a child and the willingness of the child to run risks for the sake of transformation and self-transformation. People must be economically and culturally equipped to act as effective citizens and workers. They must also feel secure in a haven of protected vital interests if they are to face instability and innovation without fear.

Money, however, is not enough. It is not even the main pillar sustaining the alternative. The effective enjoyment of social rights depends on social action and social organization. Local communities must organize to participate in the design and implementation of assistance programs.
In many countries, both rich and poor, millions of children live in single-parent families. The weakening of the family often takes place against a background of community disorganization. In such a circumstance, welfare assistance to maintain these children in their family and school lacks its most important ally—community associations able to take over some of the responsibilities of fractured and overwhelmed families. Offering help in ways that trigger community association becomes the key to successful child support.

Popular organization and decentralization of decisions become crucial to ensure efficiency and equity in social spending. If this strategy of participatory community engagement is not to degenerate into the delegation of governmental power to local bosses and activists, access to all but the most basic social benefits should be made conditional upon broad-based community organization.

**High-Energy Democracy**

The market turn is widely thought to be associated with democracy. But what kind? Neoliberals like democracy as long as democratic arrangements do not go too far toward arousing popular political energy. They hold out hope for the reciprocal reinforcement of economic and political freedoms. However, they also worry about the "excesses" of grass-roots democracy, which, they believe, threaten to arouse unrealizable expectations and generate self-defeating policies. Politics, they think, should not get too exciting before people get rich. After people get rich, they will doubtless find other matters more exciting.

The trouble is that the low-energy, limited democracy implied by this way of thinking favors a selective neoliberalism, more congenial to plutocratic lobbies than to small-time entrepreneurs. Such a program will, for example, be more anxious to sell off government enterprises than to break up private oligopolies.
The masses of ordinary people, forgotten by this policy, will seek political revenge against it. A costly swing between economic orthodoxy and economic populism is the likely result.

The alternative version of the market turn requires a more energetic style of democracy than now prevails in the North. A commanding idea in those countries is that politics should become small, so that people can become big. However, small politics make people small too, starving the institutional renewal that represents the lifeblood of democracy. An experimental economy and an organized society can flourish only in the climate of an energized polity.

High-energy democracy requires constitutional arrangements that favor the rapid resolution of deadlocks among the political branches of government (for example, through plebiscites and anticipated elections, called by either political branch for both branches) and the heightening of organized civic engagement (for example, through rules of mandatory voting, public financing of free access of political parties and social movements to the mass media). Such a program mixes elements of representative and direct democracy. It wants democratic politics once again to become a contest of visions, not the benevolent management of a world without options. It is a contest requiring a resilient, vigilant, organized, civil society.

The Alternative: The Empowered Worker-Citizen and the Democratized Market Economy

One way to grasp the sense of the alternative is to move away from familiar controversies about the role of government in the economy and to place this proposal in a fresh context. This context is the debate now taking place throughout the world about industrial renewal and its implications for relations between workers and managers. We can distinguish three voices in this controversy.
The first position—call it the conservative managerial program—has the initiative. It translates neoliberalism into the everyday realities of work and business. Its complaint is that present work arrangements are both too rigid and too conflictual. In the name of flexibility, it wants to minimize restraints upon managerial discretion to move people and resources around. However, it also wants to enhance cooperation on the job, turning work into teamwork.

It manages the tension between these two planks in its platform using devices such as the segmentation of the labor force. A core of relatively stable workers benefits from efforts at industrial cooperation and reskilled jobs. The unemployed, temporary workers at home and workers in foreign countries bear the brunt of “flexibility.”

The second program is the conventional social-democratic response to managerial reform. It wants to restrain managerial discretion, turning present jobs and benefits into vested rights. It also proposes to broaden the range of “stakeholders” to whom managers should account: workers, consumers, and local communities as well as legal owners.

This social-democratic program suffers from two great defects. It restrains innovation. Moreover, it takes for granted, and reinforces, an underlying division between insiders and outsiders. Its worker beneficiaries are typically a relatively privileged group holding jobs in the highly skilled and capital-rich parts of the economy.

The third position is the extension of the alternative presented in these pages into a distinct proposal for industrial renewal. Instead of vested rights for the insiders, it wants to enhance the economic and cultural endowment of all workers. It seeks to ensure that everyone—outsiders as well as insiders—will have the means with which to thrive in the midst of instability. Instead of “stakeholding” by multiple constituencies, holding one another ransom, it wants radically to decentralize and democ-
ratize access to productive resources and opportunities. The ideas about financial reform mentioned earlier represent a first step in this direction.

The goal is not to regulate the market economy but to democratize it. We cannot, however, hope either to develop or to maintain the institutions of a democratized market economy without drawing upon the capabilities created by community organization and civic engagement. The alternative program of industrial renewal can begin without broader political and social reforms, but it cannot continue without them.

Would-be progressives today lack a program. Typically, their program is the program of their adversaries, with a discount. Abandoning hope in an alternative, they have resigned themselves to the humanization of the inevitable. They want to soften or slow down what they cannot replace or reimagine.

Thus, in the United States some Democrats look backward, nostalgically, to the New Deal, clinging to social entitlements without social participation and organization, while other Democrats look sideways to the Republican agenda, seeking to superimpose a little bit of social concern upon a great deal of market orthodoxy. European social democrats fail to combine their ever weaker redistributive commitments with a productive vision or with an institutional view of how both to democratize the market economy and to deepen political democracy.

In the postcommunist societies, an empty contrast between “shock therapy” and gradual reform reduces national debate to a discussion about different rates of progression along the same trajectory. This abdication sets the stage for the crudest forms of nationalist resentment and populist reaction. In some of the major developing countries of the South, centralized industrial and trade policy in the style of the Asian economies has sometimes been offered as the sole feasible alternative to neoliberal rectitude—one discredited formula against another.
Many countries have been happy to turn their backs on inflationary populism, import-substituting protectionism, and loss-making public production. Few of these countries, however, are ready to welcome the denationalization of industry, the widening of social and economic inequalities, and the submission of national governments to financial fashions as the wave of the future.

Improving the life chances of individuals, sustaining families within organized and therefore capable communities, and encouraging the powers of nonconformist insight and innovation in every field of social experience—these achievements are what count at the end of the day. To care about people, however, we must be experimental about institutions.

The focus of conflict and debate in the world is changing. The old opposition between state and market is dead or dying. It is being replaced by a new rivalry among the alternative institutional forms of representative democracies, market economies, and free civil societies. (The most influential economic heresy of the twentieth century—Keynesianism—shares with the tradition of English political economy a poverty of institutional imagination. We need another heresy, free of that flaw.)

Reforms undertaken in the name of the market economy can start us down more than one road of reinvigorating political, economic, and social freedom. One of these roads turns people into enemies of markets because it turns markets into enemies of people. Another road leads to a society reconciling more decentralized and diversified economies with more intense democracies, and productive innovation with social solidarity.