

# Inclusive Vanguardism: The Alternative Futures of the Knowledge Economy (OECD)

Roberto Mangabeira Unger and Discussants

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## 0. Introduction and Methodological Preliminaries

Unger: The theme is the future, or the alternative futures, of the knowledge economy. And the thesis that I intend to develop and defend in the course of my interventions today is that the knowledge economy can and should be established in a socially inclusive form, rather than in the form that it now takes which is its confinement to insular vanguards. This is a momentous theme because it touches deeply and directly on two sets of questions. First on questions of economic stagnation and slow-down on the growth of productivity – there is now a discourse often conducted under the label of secular stagnation that seeks to naturalize the slowing of economic growth. But there's nothing natural about the slowing of economic growth, it is in part a consequence – I want to argue in the course of these interventions – of the relegation of the new advanced practice of production to isolated vanguards from which the vast majority of the labor force in all the major economies of the world remain excluded. The second great issue on which this topic touches is the problem of inequality and exclusion. The ascent of the knowledge economy brings with it a new form of the hierarchical segmentation of economic life between advanced and backward sectors, and this hierarchical segmentation becomes a motor of inequality and exclusion. There are two traditional devices for the containment of inequality: one of them is the defense of small business against big business, and the other is compensatory redistribution by tax and transfer. Both of these devices prove to be entirely inadequate as a response to the problem generated by this new form of the hierarchical segmentation of the economy.

My thesis is that the only adequate response is institutional innovation to establish this vanguardism in inclusive form. Anything else will be inadequate. Such an innovation will require a reconstruction of the institutional architecture of the market economy – a democratization of the market economy rather than simply the regulation of the market or the attenuation of market inequalities by retrospective redistribution through tax and transfer. But the democratizing of the market economy is in turn not possible without a corresponding deepening of democratic politics and therefore the counterpart to the democratization of the market is the institutional reconstruction of the market itself.

Now in the course of our work today I hope to be as systematic as I can and as relentless as I may be allowed to be, and I will proceed in the following steps. First I want to propose a view of the character of the knowledge economy. Second I want to discuss the enigma of its confinement to insular vanguards and to suggest an initial explanation of this enigma and of the way this insularity could be overcome. Third I propose to look to classical development economics and its failure as a source of insight into these

problems. Fourth I will address the idea of disruptive innovation in the economy and the firms that embody disruptive innovation as yet another perspective from which to gain ideas that can serve us in addressing the problem of the insular vanguard. And that then would be in this proposal the first part of the discussion. In the second part of the discussion then I would turn to the means by which we could hope to overcome this insularity and to advance vanguardism in an inclusive form. And here I want to distinguish between the proximate requirements of an inclusive vanguardism and the background cultural and political conditions that would make it more likely that these requirements could be satisfied. So the fifth step of the discussion is to address the cognitive and educational requirements of inclusive vanguardism. The sixth step is to deal with the social-moral requirements of inclusive vanguardism. The seventh step is to address the legal and institutional trajectory of inclusive vanguardism. The eighth step is to discuss the cultural conditions for the satisfaction of these requirements. And the ninth step, the political conditions for their satisfaction. And the tenth step, to conclude, by relating this programmatic argument to the current political setting. So that's my plan, but I don't intend to implement this plan in the form of a long-winded lecture. What I propose to do is stop after each of these steps and to have a discussion so at each point along the way I will make proposals for 15 or 20 minutes and I would stop and we would have a discussion. And in this way I would hope to provoke a collective formulation of this task.

But before beginning implement this plan I want to start with some methodological preliminaries to make explicit some features of the way of thinking to which I will appeal in this argument. The first set of preliminaries has to do with structural vision. My emphasis throughout will be on structural alternatives. Structural alternatives meaning above all change in the institutional arrangements of the market economy and of democratic politics without which we cannot hope to advance an inclusive vanguardism. But the truth is that we don't know how to think or talk about structural alternatives today. All of the contemporary social sciences are bereft of structural vision, and in some certain respects antagonistic to structural ways of thinking. But each social science is antagonistic to them in a different way. Tolstoy says in the beginning of *Anna Karenina* that 'all happy families are alike but each unhappy family is unhappy in its own way'. To exemplify this idea let me say a few things about the peculiar unhappiness of economics because it is the discipline which is most proximate to our subject matter.

What I have in mind is the main tradition of economics established by the marginalist theoreticians at the end of the 19<sup>th</sup> century. Today when we speak about economics we don't mean the study of the economy we mean the practice of this peculiar method. It is the most powerful and influential social science; it is immensely useful and even indispensable as a science of constraints and of tradeoffs. But in the form that the marginalist theoreticians gave it, it suffers from four grave defects. And these defects together illustrate one of the ways in which our contemporary ways of thinking deny us the benefit of structural vision.

The first defect is that it is not a causal science at all. In the form that the marginalist theoreticians gave it, it is as the Austrians recognize a practice of logical inquiry. And

when it is pure, or the purer it is, the emptier it becomes. Its founders imagined it as an apparatus of analysis that would be invulnerable to causal and ideological controversy. So there is no accumulation of facts that can overturn it. The analytic procedure is implemented by creating models. When a model fails to work another model is produced with different assumptions and parameters and constituents. Its like Groucho Marx said, 'I have principles and if you don't like them I have other ones'. So you could say formulaically that in this logical science there is theory and there is empiricism but they have very little to do with each other. The pure analytic apparatus runs on the fuel of factual stimulations, causal theory, and normative commitments that are supplied to it from the outside. There is no causal theory that is intrinsic to the pure form of the marginalist analysis. The causal ideas are either created ad hoc or they are imported from other disciplines such as psychology. The result is that this practice of pure analysis is either pure and impotent or powerful and corrupted. It depends on factual stipulations, causal theories, or normative ideas that it is itself incapable of producing. The marginalist theoreticians believed this would be an immense advantage because it would render their science invulnerable, but in fact it condemned their science to an eternal infancy. Its practical result is to make impossible the periodic subversion of theoretical paradigms through the accumulation of contrary facts, that's the heart of any natural science. There is no accumulation of facts which can undermine the models of pure marginalist theory.

The second defect of this practice of economic analysis is its emptiness of institutional imagination. It identifies maximizing rationality with the market but more significantly it identifies the abstract conception of the market with a very particular contingent set of market institutions. The greatest achievement of legal thought over the last 150 years has been to establish that a market economy has no single natural and necessary form -- that there is no regime of contract and property inherent in the conception of a market economy. But this idea has never penetrated the inner sanctum of practical economic thinking and the reflex of the economists is still to believe that a market is a market a contract is a contract and property is property. From this standpoint you could say that there are three kinds of economics: there's the pure economics of an Arrow of Debreu which has no institutional content, there's the ideological economics of a Hayek that identifies the abstract idea of a market with a particular set of market institutions, and there's the equivocating economics illustrative of the argumentative practice of the American followers of Keynes -- so called macroeconomics, the exploration of supposed law-like relations among large-scale economic aggregations such as the level of savings, investment, and employment. If you challenge them and say that these law-like regularities depend on a whole host of background institutional conditions, such as for example the nature and level of unemployment insurance, they will concede that they do depend on those background conditions but then they will go on to disregard this concession in their argumentative practice as if the institutional arrangements are in fact stagnant. Confusing stagnation with law, and that's what I mean by equivocating economics.

The third defect of this economic science is that it has no proper view of production. It's a theory of competitive market selection bereft of a view of production. Adam Smith and Karl Marx and the classical economists in general had a view of production at the same

level as their view of exchange. But this theory that began in late 19<sup>th</sup> century marginalism has no account of production and it views production simply under the lens of relative prices. It can do that only because of a contingent feature of the market economics that it studies which is that in those market economics labor can be bought and sold.

The fourth defect of this tradition of economic science is that it has no account of the diversity of the material on which the mechanisms of competitive selection operate. The fecundity of the method of competitive selection depends on the range of the material from which it selects. So take the analogy to the neo-Darwinian synthesis in the life sciences. There's a theory of competitive selection, Darwinian natural evolution, and there's a theory of the creation of the diverse material on which the theory of competitive selection operates, genetic mutation and recombination. Here we have a science that has only half of this conception. There's a theory of competitive selection but there's no theory of diversity. So we don't know the value of the half that we have because it's missing the other half. For example from the standpoint of economics the division of the world into states is an accident without proper economic significance, although it is the predicate of the theory of trade and of the Ricardian doctrine of comparative advantage. The world might just as well be a single state. But if it were a single state there would be much less diversity on which the method of competitive selection could operate. So I've given you an extended example of the way in which one particular social science, economics, fails to provide the adequate instruments of structural vision. So that's the situation, that's the intellectual background. We have to use the sciences that exist, we can't pretend that there exists another one. But we can't surrender to its defects. So that's the first thing that I want to say about the method of my discussion. That it is a method that will rely on the existing disciplines to some extent but resists surrendering to them, an attempt to exemplify an alternative theoretical practice.

Now I state a second methodological preliminary and this methodological preliminary has to do with the conception of structural change. The dominant traditions of social thought have bequeathed to us a binary idea of structural change achieved through political initiative. On this view there are basically two kinds of politics – revolutionary politics and reformist politics. Revolutionary politics is the substitution of one system by another -- so capitalism by socialism. Reformist politics is the management of a system – so if we can't replace one system by another all we can do is manage a system. The truth is that structural change, change in the institutional arrangements of the economy or of the state, is invariably piecemeal. The idea of systemic change is simply a limiting case and to a large extent a fantasy. And the appeal to this fantasy is in practice to a large extent a pretext for its opposite. Because systemic change is inaccessible or too dangerous if it were accessible, the only thing that's left to do is to humanize the existing order by regulation or by compensatory redistribution. Now in my arguments today I intend to proceed on the basis of a rejection of this idea. So my view is that structural change is almost invariably piecemeal but can never the less become radical in its outcome if it persists in a certain direction under a certain conception.

The third methodological preliminary has to do with the understanding of programmatic arguments – arguments about alternatives. If I propose to you something that's close to what exists you're likely to say 'that's interesting but it's trivial'. If I propose something that's distant from what exists, you'll object 'that's very interesting but it's utopian'. Anything that can be proposed in the present climate of opinion is likely to be dismissed as either trivial or utopian. The truth is that a programmatic argument is not about a blueprint or a system it's about a trajectory. And any trajectory worth thinking about can be explored at points relatively close to what exists or relatively remote from what exists. The most important attributes of a programmatic argument are first to mark a direction and second to identify in the historical circumstance initial steps by which to move in that direction. Now our main inherited ideas about structural change come from the tradition of classical European social theory, especially Marxism. The contemporary social sciences, as in the example of economics I just gave, provide us with no way of thinking about structural change at all. And classical social theory as in Marxism does provide us with a way of thinking about structural change but not with a way in which we can believe. It has the idea of structural change but it associates this idea with a set of heroic assumptions that have become literally incredible – that there's a limited menu of systemic options in history ('the modes of production' in Marxism), that each of them, is an indivisible system, and that there is a foreordained succession of these indivisible systems governed by historical change – all unbelievable claims, claims in which we can no longer believe. And the result is that we have no way of thinking about structural change. Having no way of thinking about structural change we then embrace a bastardized conception of political realism which is proximity to the existent. And the idea that a proposal is realistic if it's close to what exists then automatically produces that false dilemma of the utopian and the trivial to which I referred before.

So we have somehow have to recreate the idea of thinking about structural alternatives, thinking about them as trajectories rather than as blueprints. In an academic or quasi-academic setting like this one, it is generally preferable to deal with trajectories at an intermediate level, at an intermediate point neither what is close to what exists nor very far away from what exists. Because this intermediate point is the one that will be most revealing of the character of the direction, and that is therefore the procedure that I will adopt in these discussions. But from the standpoint of practical politics and political persuasion the intermediate point has a great disadvantage which is that it is likely to result in proposals that seem too remote to be feasible but not remote enough to arouse enthusiasm. And therefore in practical politics we avoid this middle point and focus on the very proximate and the very remote. The discourse of transformative politics is at once practical and transformative, or practical and prophetic. Now I've stated then these three preliminaries explaining the intellectual attitudes that I bring to the discussion, and before going any further I then want to stop and ask if you propose any discussion, before I begin with the first step which is the characterization of the knowledge economy.

Moderator: Gabriela has handed over just the refereeing of this operation to me. Just to remark on your idea that economics developed more and more pure models, there's a saying of a Chinese philosopher who said that 'when water is too pure there's no fish in it' and I think that that's somehow a bit the problem with economics as well.

Unger: Well actually if you were to look at the surface of economic practice you would think it was a heavily empirical science because so much of the work is empirical but the problem is the dissociation of the empirical content from the theoretical apparatus, that is the theoretical apparatus is held constant and not placed in jeopardy by the empirical work.

Moderator: Who would like to react now to Professor Unger's, let's call it 'provocation'. (silence) I think you stunned them...there was an interview in the Guardian in I think 2006 which said that any conversation with Professor Unger is like trying to waltz with a cement mixer, it's a very difficult and painful exercise (laughter).

Discussant: I can offer, since you suggested me. First, what wonderful remarks. There are two aspects of that, that I think I might highlight. So I was an economics PhD and then I was a researcher and just to take one example of the marginalist, to be very specific-- obviously you'll come onto it when we get to the knowledge economy -- but I remember talking with my advisor and saying well obviously we're moving into this world where information goods have large fixed costs and no marginal costs, I think I'm talking to an audience where I don't need to explain any of that, and obviously that renders a lot of traditional economic theory much less relevant. Just as an example, most of Arrow-Debreu's works, it violates basic conditions of that because you have non-convexities in the production function for example. And I said you know it does seem that most of the stuff we study is therefore, because you know we are moving into an economy where most of the goods are like that, even if your inside that apparatus it is now a problem. And he said I kind of agree with you, but it's not much it's very difficult to model those kind of things so don't pay too much attention to it for now, and I paid attention to him he was a very good economist and he wasn't dismissing it was kind of a strong sense of that drunkard and the lamppost problem. It took us where those things violate conditions and took us to a place where we can't do things. And I think that has a particular relationship to the knowledge economy we're going to talk about. The other, which has a more political, and therefore you might, I'm sure you've thought about it but just, relates to what said is the kind of sacrosanct nature of preferences as you mentioned come from outside in psychology, but somehow deus ex machina people somehow turn up with these preferences. And obviously I thought it was some joke, obviously in business school you're taught about advertising, advertising is quite important if you are running a business. And if you went to a business and said consumers have these preferences, they just want things, they are just there, they don't change, and maybe they could discover about products they didn't know they had, but you know business people would obviously laugh at you, it's just ludicrous. Why do people spend all this money on advertising? And why I say it's so political is it relates to a whole constellation of belief about the sacrosanctness the pretense of certain ways the economy works, if we could never argue with people's preferences and choices because that's part of their liberty, that it's actually highly political in that sense. Econ 101 for those of you've have taken it where you have a world with given preferences and scarce goods and you've got this tradeoff, and most of economics can be spent talking about how you optimize this tradeoff, or come up with new technologies to deal with it. Whereas obviously there are

huge intellectual traditions which go actually we're going to spend most of our time altering our preferences, the basic Buddhist teaching being we are going to reach well-being by altering our preferences. Just an example of an entire intellectual tradition which make you reconsider where you were allocating your effort.

Unger: So just to clarify the spirit of my comments about economics was not to dismiss economics because it's what exists and as I said it's useful and even indispensable. But we have to understand the limits of the theoretical tradition that we're given and the understanding of these limits has great practical importance for our subject today because what it means is that in addressing a problem such as the creation of inclusive vanguardism there is no ready-made body of knowledge to which we can appeal. All the existing disciplines are more or less useful if used selectively. But they are unable to map out the way for us, and this creates a special intellectual complication in our circumstance.

Moderator: We should give the word to Greece.

Discussant: Let me be equally provocative. We started the discussion with methodology and methodology is such a broad subject that you can find always. From your ideas, the most important thing, and I am in complete agreement, is that it's time to put in our theoretical studies the study of the economy of the subject and not the method in the center of our attention. We define economics, and it's the only science which defines itself by the method and not by the subject. So starting from that let me counter some of your claims. You talked about Arrow-Debreu theory that it's devoid of institutional arrangement, the problem exactly is that Arrow-Debreu has implicit institutional arrangements, that these are important. And the best criticism of Arrow-Debreu model is made by the founders of General Equilibrium theory, for example Arrow said, 'if everybody is price taker, who on earth gives the prices?' So the institutional arrangement is that there is a coordinating person there who has no preferences or any ideas of its own, its just there in order to facilitate the exchange. So it's a theory of a coordinated economy, not a theory of a market economy. The second thing, when [some name] was asked how do you put the theory of the firm in general equilibrium, how you put the firm in the general equilibrium model, he answered 'it's simple the same way that you put the balloon in an envelope, you take out the air, that's the only way to put it there'. So everyone knows the only way not to have any upset between the resources and the preferences you have to neutralize the presence of production. Third, it's Arrow-[some name] try to put money in general equilibrium theory, and they found out that even if the agents know the equilibrium prices they cannot execute these trades in a bilateral motion, as we do it in a market economy, you need money in order to do that. So the problem with the theory it's not that they have a theory of production, my argument is that they don't have a theory of exchange. And how our economy operates as if it were a general equilibrium model, that's the problem, they don't have a theory of exchange. And you cannot have a theory of exchange without having money in it, and what Keynes and Marx and so forth, they are not theories of production; Marx said Ricardo is the theory par excellence of production. They talked about monetary production how we produce when we produce for the market and the money. That was the difference of their approach.

## 1. The Character of the Knowledge Economy

Unger: I'm going to resist answering your comments because in making explicit my methodological attitudes I did not intend to redirect our discussion to the future of economics. I was simply trying to clarify my assumptions. What I propose we do not is advance directly to our central subject, which is the knowledge economy and its future. And the first step is to characterize what the knowledge economy is. So that's what I'm going to do now, I'm going to offer a characterization of the knowledge economy. And I will use the terms 'knowledge economy' or 'new economy' or 'post-Fordist' production as synonyms. Now I do not equate these terms with any particular technology, and in particular I do not equate them with digital technologies. So a simple vulgar conception of the new economy is that it is the high technology industry, and in particular high technology industry using digital economies. The new economy as I understand it, the knowledge economy, is greatly assisted by the use of digital technologies, but it has no intrinsic relation to this particular set of technologies, and those technologies can be used without the establishment of the productive practice that I'm going to call the knowledge economy. So I'm proceeding from the assumption that there is no simple identification of the knowledge economy with the high-tech industry, so how then are we to understand its character?

At the most superficial level the accumulation of capital, knowledge, and technology to be sure. At a second level, the level at which you could call production engineering, there are two sets of salient characteristics. The first characteristic is the reconciliation of destandardization, or customization, with scale. And technologies such as the technologies of additive manufacturing or 3-d printing facilitate the reconciliation of decentralization with scale, more decentralization with more scale. The destandardization of products and services ceases to be the opposite of scale. The second characteristic of scale at this intermediate level has to do with the relation of decentralization of initiative and the maintenance of coherence and direction in the process of production. So we allocate production to teams of workers that are given significant discretion, the Toyota method of production. But in promoting decentralization we maintain the impetus, to coherence, of the process of production. So let me give you a military analogy. The distinction between a traditional infantry battalion and a regular force, or a guerilla operation. The guerilla operation requires a much greater decentralization of initiative and of discretion, but it maintains coherence in the theater. So we can have destandardization with scale and we can have decentralization with coherence.

Now comes a third level of characteristics, and these characteristics are to my mind the most important in distinguishing the knowledge economy. There are three characteristics which are vital at the deepest level to the characterization of the knowledge economy. The first characteristic is the promise, the potential, to relax the constraint of diminishing returns. So the knowledge economy holds the potential to limit or even to reverse the constraint of diminishing returns. In knowledge intensive production there's the potential for increasing returns to scale. Now if there is any constant in economic life that deserves to be considered as having a law-like character it is this one: the constraint of diminishing returns to scale. If it is true that the knowledge economy has the potential to relax this

constraint or even to reverse it, that would be a change of vast consequence in the character of economic life. And from the standpoint of this change we could divide all economic history into three large epochs. The first epoch would be the epoch in which the fundamental constraint in economic growth is the size of the surplus over current consumption. Adam Smith and Karl Marx both believed that the size of the surplus over current consumption was the major constraint on economic growth in the economies they studied. For Karl Marx, for example, the fundamental functional justification of a class system is to serve as the instrument for the coercive extraction of a surplus over current consumption. But they were mistaken. In the economies with which they dealt the size of the surplus over the current consumption had long ceased to be the main constraint on economic growth. If for example we compare the level of saving in Britain on the eve of the industrial revolution with the level of saving in mid-Qing China it was actually significantly lower. So it can't be that the size of the surplus of current consumption is the main constraint, the main constraint was the combination of organizational, technological, and institutional revolution, innovation. And that then would bring us to the second large epoch of economic history, in which the fundamental problem becomes the organization of innovation – technological, intellectually, organizational, institutional. But on the basis of the constraint of diminishing returns. A third epoch of economic history would begin if this constraint of diminishing returns were relaxed, there would still be scarcity but there would no longer be diminishing returns.

The second major attribute of the knowledge economy at this deepest level is that it attenuates the contrast between conception and execution and relativizes all specialized work roles. So consider the contrast to mass production, to so called Fordist mass production. The large scale production of standardized goods and services on the basis of relatively rigid machines and production processes and very specialized and hierarchical work relations, the technical division of labor. There's a command and control structure and the counterpart of the command and control structure, the stark contrast between the supervisory and the implementing jobs, is the highly specialized character of each of the implementing jobs. Now both the sets of contrasts are relativized and the practical effect of this relativization, of the contrast between conception and execution, or of the contrast between specialized work roles, is to bring production closer to the practice of scientific discovery. The best firms become more like the best schools, or the best laboratories. Consider the significance of this transformation for the relation between a worker and the machine. In Adam Smith's pin factory or in Henry Ford's assembly line the worker works as if he were a machine. The movements of the worker mimic the movements of his machine. The worker acts formulaically in repetitious movements that are like the movements of his machine. But now under the conditions of the knowledge economy we have the potential for a completely different relation between the worker and the machine. And the relation could be described in the following form: everything that we have learned how to repeat we express in a formula or an algorithm, and the formula or an algorithm we embody in a physical contraption – the machine. The purpose of the machine is to do for us everything we have learned how to repeat. So that we can preserve our time, our supreme resource, for the not yet repeatable, for what we have not yet learned how to repeat. And then the relation between the worker and the machine becomes immensely more powerful than the worker or the machine alone.

The third characteristic of the market economy has to do with its moral presuppositions, the moral culture of production. The moral culture of mass production is low-trust -- low-trust and low-discretion. The market economy is viewed as a simplified form of cooperation that is impossible if there is no trust, but unnecessary if there is high trust. It requires only a modicum of low trust, so the social theorist like Max Weber believe that the moral presupposition of the market economy was the breakdown of the radical contrast between attitudes to strangers and attitudes to members of an in group -- all trust to the insiders and no trust to strangers. The market depends on the reliability of promises and commitments among strangers – low-trust enforced by law. And the moral world of production is a world of low trust and low discretion. Now it seems that the knowledge economy requires a raising of the level of trust and of discretion. It requires more trust given to the workers and among the workers and more discretion, and we know from empirical observation that the knowledge economy flourishes in social circumstances and in industrial regions characterized by a circulation of people, resources, ideas, and practices among firms. For example there is empirical work contrasting say Silicon Valley in the United States with route 128 around Boston, and the thesis resulting from this empirical work is that a crucial advantage of Silicon Valley over Route 128 is that there is more cooperative competition, more circulation, more trust and therefore higher discretion. So there you have three characteristics of the knowledge economy at this deeper level: 1) the relaxation of the constraint on diminishing returns 2) the attenuation of the contrast between conception and execution and among specialized work roles, and therefore in general of the contrast between discovery and production, 3) and the creation of a different background of social capital and moral presuppositions requiring higher trust and higher discretion in the world of production. So the more superficial characteristics combining destandardization with scale, and decentralization with coherence in the process of production flourish against the background of these deeper presuppositions, and that then is the conception of the knowledge economy that I propose. Disassociates from its marriage from any set of technological instruments.

Discussant: Just off the wall I had the idea of exploring industrial democracy so I came to France and worked in a producers economy, and I got involved in the discussions of the anarcho-syndicalists and underlying the theoretical view was that if production could become supremely repetitive it would liberate them to exercise their minds and their beings towards the transformation of the system. Now what you have to say rings a bell with me for this reason, because it implies that if you dissociate the knowledge economy from a technology and in particularly in this digital economy you release forces which enable the working life to be a better life, and of course this proposition becomes a radical proposition in today's context because we have slipped into the assumption that the better life has to be sought outside the production system, and I note that shortly after you there'll be Ed Phelps coming here who is arguing here about the knowledge economy and the good economy. So I just wanted to introduce that thought that the implications of what you are saying is that industrial production could become more democratic and would involve a much more decentralized view of the economy made possible by these new technologies. This is a very strange institution Mr. Unger because within it, lost in its memory, more or less lost, was long ago the idea which in those days was called 'local

initiatives'. And this institution set up a program on these local initiatives, and the product of it was lost, forgotten, was the idea of a plural economy, that's to say an economy which flourishes on the basis of different modes of production. And I'll even go so far as to say to you because I was watching one of your videos yesterday on the social innovation movement, and you're very much leading that, we even got so far in this institution of almost setting up a social innovation center. It's just to make the point that the discourse I hear from you could find significant resonance in this institution if only what's in the engine rooms of the organization could be brought more into the main streams. Thank you.

Unger: When dealing with the requirements of inclusive vanguardism the overcoming of this confinement to insular vanguards of the knowledge economy, I want to come to the legal and institutional requirements – the renovation of the legal and institutional architecture of the market economy – and therefore I want to postpone my response to your provocation to that moment.

Moderator: Let me leave you with one thought, something you said was very important was trust. And a very strange phenomenon has happened even in my lifetime which is that if you look at Lloyds the insurance company, I've said this to some of you before, if you look at the insurance contract on the Titanic, it is two pieces of paper – one piece of paper says 'this is the insurance contract to go from South Hampton to New York, and written by hand is oh by the way it's going to Belfast as well' and then the second bit of paper is just signatures of people and amounts of money they would be prepared to pay. And that's all the contract was. And when the Titanic went down with 48 hours all the sums that were due were paid. Nowadays if you look at you credit card contract it would take you a week to read it. So something has happened, which we will no doubt come back to, which is somehow all that – the whole of Lloyd's was organized on this complete trust, make a telephone call and your ship was insured and nobody questioned that – and now everything is legislated, and of course as a result lawyers have a large part of the activity in our economy. So it's just a thought that, trust, you're right that it's very, important but why has it diminished so much in our market economy. So I don't know whether you want to answer that or whether we come back. So we have half an hours break and come back for coffee.

(after break)

Moderator: George Bernard Shaw said 'reasonable people try to adapt their ideas to the way the world is, unreasonable people try to adapt the world to their ideas'. And so I think that Roberto Unger is probably in the class of unreasonable people but that's probably a good place to be.

## **2. The Enigma of Insularity – Explanation and Paths Forward**

Unger: Well it reminds one of another statement by the Spanish philosopher Unamuno who said that 'in the world the victorious are those who adapt to the world and the

defeated are those who demand that the world adapt to them.’ Therefore he added ‘the progress of humanity rests solely on the shoulders of the defeated’.

So the next subject in my plan is the enigma of insularity. Now I begin with a remark about the concept of the most advanced practice of production. In each historical circumstance there is a most advanced practice of production. The most advanced practice of production is not necessarily at the outset the most efficient or the most productive. It is the practice of production with the greatest potential and fecundity -- to reach the frontier of productivity and to stay there, it designates the path of advance. Until recently the most advanced practice of production was Fordist mass production, the successor to the mechanized manufacturing that developed at the time of the industrial revolution. That most advanced practice of production although it emerged in manufacturing rapidly set its mark on the entire economy. Every sector of the economy was transformed on the model of mechanized manufacturing. Now we have a new advanced practice of production the one that I characterized at the previous moment of our discussion, which in principle should be susceptible to even more universal dissemination. Nevertheless the opposite happens, instead of universally disseminated it is confined. And this confinement has momentous consequences. First as I observed in my initial remarks it has an effect on economic stagnation. It is impossible to understand the slowing of economic growth and of the ascent of productivity except in relation to this confinement of the advanced practice of production. Now there is a body of empirical work which deals with this problem under the label of ‘sectoral heterogeneity’. In each firm, in each sector, a distinction between advanced firms and backward firms. This organization produced a study called the future of productivity distinguishing global innovative firms, national innovative firms, and laggards. And now I am proposing to deal with this problem under the label of ‘confined vanguardism’. There is no justification to the attempt to naturalize economic stagnation. To treat it as if it were the inevitable consequence of a supposedly diminished potential of contemporary technologies in comparison to the technologies of the earliest 20<sup>th</sup> century or late 19<sup>th</sup> century. The truth is that the revolutionary potential of these contemporary technologies remains radically under-utilized. And this under-utilization is related to the confinement of the knowledge economy to the insular vanguards.

At the same time the insularity of the vanguardism, its confinement sectors weakly to advanced fringes of each sector, weakly linked to the rest of the economy becomes a driving force of inequality and exclusion. And I argued earlier that compensatory redistribution by tax and transfer and the defense of small business against big business are entirely inadequate antidotes to the inequality that results from this new hierarchical segmentation of the economy. So the present situation is that the advanced practice of production is present in every sector of the economy -- in services, and in agriculture, as well as in industry, but in each sector of the economy it appears as a fringe as a narrow part of the sector. And this advanced practice of production is present not only in every sector but in every major economy of the world – in the major developing economies in the major rich economies.

Now how are we to understand this enigma of confinement? So I propose an initial explanation which will provide an avenue into the later programmatic discussion. Mass production was stereotypical, it rested a standard repertory of machines and machine tools such as the traditional machine cutting lathes, on minimalist educational requirements, on a moral culture of low trust and low discretion, and on minimal institutional conditions, a regulated market economy, requiring no radical innovation in its legal and institutional architecture. But now this new knowledge economy has demanding requirements – cognitive educational requirements, social and moral requirements, and I want later to argue, legal and institutional requirements. And these requirements are then the beginning of an explanation of the enigma of confinement. So let me stop there and invite discussion of this thesis.

Discussant: I should say first of all that I was very fortunate in my graduate class in Victoria University in Wellington to have a history of economic thought class. So this is a really important educational background not every background, thank you very much for that masterly review of why economics didn't get to the core of it. Now I just want to revisit that history a little bit. But first of all just for us to note that the current election campaign debate in France at this very moment is getting to these core issues, and if you watch this terrible fight between Macron and Le Pen the other night the program of Macron, and I'm not actually tremendously partisan, and he is raising, he is looking at reforms which will at the enterprise level enable small enterprises to have ways of moving into the advanced economies, and other items of political democratization which are hidden there. He is studied with a philosopher and he's got a philosophy in his head which includes helping everybody to realize this potential. Of course these debates have also been the US election process, the UK election process, etc. So I think you are seeing all this in the political debate right now. But just getting back over some of the ground you covered this morning let me say look at the question of China and the fact that neither the OECD or the World Bank or the IMF has really been able to explain the Chinese growth process, and with the famous economist miracle report of the World Bank which the Japanese requested which failed to explain it, and still cannot explain it. Now my sort of history of this goes back to Alexander Hamilton, so what Alexander Hamilton was doing in his reports to congress in 1792 was proposing that the state would assist the emergence of a manufacturing sector and the acquisition of knowledge. So it was the learning model that he was promoting. Then we had Frederick List who studied Alexander Hamilton, he was in the US, he took it all and took it to Germany, from Germany this kind of model then went through to Asia, the Japanese the Koreans and then the Chinese. So there is a knowledge-based process that mainstream economics hadn't really been able to accept for many of the reasons you explained. Now in the specific case of China and understanding what is going on in China there is at the essence of it a radical decentralization process in China, so that there is a narrative and a strategy but then there is money that goes to cities and lots and lots of points of initiatives in the Chinese system which is why they have such dynamic growth, and then because they were so successful at bringing these industries into very economic shape they changed the world because we do now have all these electronic gadgets in the world so its had a big impact on social democracy and economic democracy around the world, I would submit. So its changed history in that way, and so other parts of the world are now

impacted by the Chinese development model and their success in doing this. And looking forward at African development, it's impossible to think of African development without that new digital economy. So I would contest a bit your point that the new economy is not essentially about the digital economy it's about the knowledge economy, and fundamentally I agree with you because that it's the capacity to access and use knowledge that is the essence of the new economy, but the digital economy does have an impact on how many people can access that knowledge and it this bring us to these key issues of social democracy in excess.

Unger: I just want to comment on another part of your remark and not let it pass without emphasis, and that's your reference to Hamilton and to the early experience of the American republic. This is something that's misunderstood about the development of the United States but it's pertinent to our subject here. You could say that a central element in the formation of the United States was the dialectic between two movements – a movement from on top and a movement below. The movement on top was the Hamiltonian project of massive mobilization of national resources – physical, economic, financial, and human – to build a country, literally to open it up. And it was orchestrated by a clique of politicians, bureaucrats, entrepreneurs, adventurers, but it could not have produced its result without another movement below which was the democratization of economic opportunity in particular sectors especially agriculture and finance, through institutional innovation. The Americans established family scale farming which at the time was the most efficient practice of agriculture in the world on the basis of an alliance of the government with family farmers and of cooperative competition among the family farmers. They disbanded the national bank and they created the most decentralized system of credit that had ever existed in the world. They were not regulating the market; they were creating new kinds of agricultural and financial markets. So it was this dialectic between national mobilization by the state and selective democratization in particular sectors that was decisive in the development of the American economy. And if we now address this issue of inclusive vanguardism it seems that it would require a similar double movement, that's the pertinence of this theme and it cannot be implemented simply by selective technocratic initiatives addressed to the firms, to the level of the firm. It requires a transformation of the legal and institutional framework – the subject of later moments of our conversation today.

Discussant: So far I see a lot of parallels between your argument and ones developed by a particular school of French economic thought, the *lecole de la regulation*. Particularly with the thesis defended by someone like [some name]. A lot of starting points are similar: incompleteness of standard economic models and rationality, incompleteness of markets, incompleteness of contracts. You also share with them an interest on questions of organization, particularly firms, and the interaction of organization and management on one hand and technological change. Another element I see of parallel is the interest both in epistemological questions and social theory. The *lecole de la regulation* did a lot of work on prior modes of innovation, particularly the Toyota model, so it's very interesting to see you update similar strand thought but on the knowledge economy, therefore more recent transformations. But to come back to the Toyota model as you mentioned it one of the most interesting studies of that model by somebody from that

school from an organizational point of view was [some name] theory of de jure decentralizations. He argues that, and this is true for the Toyota model, you can have two types of decentralization – information and incentives. Therefore he argues that while you have more discretion and autonomy in the Toyota model for workers, so decentralization from that point of view, to maintain coherence you have centralization in the wage structure and therefore in the incentives. So one question I have do you think that his theory of de jure decentralization breaks down with the knowledge economy, can we have much more discretionary work, more autonomy with the new technologies while having a more diffuse incentive and contract structure? Another thing which is interesting which was studied by people like Andre Orlean from that school was the labor productivity advantage of Toyota, a very interesting natural experiment was when you had the transplants – in Europe particularly in France when this issue was studied you had a bunch of interesting questions – was Toyota superior for cultural reasons, was it superior for organizational reasons? – what Orlean concludes is that Toyota's advantage was due to neither, it was due to freeing its workers which also applies in France which allowed selection of collaborators, therefore the idea that in building trust into the structure was essential. So I was going to ask you initially whether you thought that type of trust and this type of approach basically the Toyota model emphasizing the need to improve collaboration also held for the new knowledge economy, but I think you've already answered that as a yes. The question is what forms do you think that cooperation will take in the knowledge economy? Will it take these extended order forms like markets or society that is legal and has formal forms of coordination – centralized and legal – or will it be more diffuse and more informal – social norms, this type of thing. Because the high tech boosters suggests that with the knowledge economy we're going to get more diffuse and more social basis for cooperation and therefore we won't need solid centralized structures like the state and sort of legal institutions.

Unger: The fundamental answer to your question depends on the background regime of property -- on the conditions of access, of decentralized access of productive resources and opportunities. All of the arguments about incentives and disincentives now take for granted the established regime of property, and they make sense within that framework, but that framework is susceptible to innovation, so that's the later part of the discussion. And then the knowledge economy can be radicalized. A premise of my whole argument with respect to the knowledge economy and its potential is that the depth or the radicalization of a practice of production is related to its scope. So in other words if it is confined to a narrow part of the economy its full potential is not revealed. Its potential is revealed only to the extent it is disseminated – there's a relation between the horizontal extension and the vertical deepening. But the combination of extension and deepening requires innovation in the background institutional and legal framework of the market economy.

Moderator: I think we have sitting in cyberspace somewhere Geoff Mulgan and rather than leave him out there would you care to intervene or would you want to hold your fire?

Mulgan: Maybe I can share a few comments at this point if its okay. Perhaps I could link the earlier discussions on method to some of these recent comments. It seems to me we have three different modes of though interacting here. There is the mode of pure theory where the theory has to be logical, coherent, and consistent – and some of that theory can be adapted to marginal thought, the end of diminishing returns and so on. And indeed I'd go further, some of what we seen in the knowledge economy is embodying that theory in reality. Then the world of practice and pragmatism, what's interesting is people talking about the role of the university in the knowledge economy or venture capital, theory is very quickly left behind, and we see the empirical craft skill of how to invest, how to grow firms, the design institutions, and here the verification principle is just what works. And not much related to abstract theory. Thirdly there's the world of imagination, how could things be radically different 5, 10, 20 years time – new approaches to property rights, basic commons, work that is integrated with well-being – and the challenge here as Professor Unger has said before is that the verification principle for these ideas as that if they are modest they can be verified experimentally, if there are more systemic – they link new preferences to new behavior – then its much harder to test except at scale. Now these three methods have to be held in tension and balance with each other since none of them on their own can help you answer the fundamental question of confinement and inclusive vanguardism. And I'd like to link things again to where you started off. In terms of generation and adoption. So I think it's correct to say I think it's a question of the fecundity of generation in the current knowledge economy and great struggle over trying to widen the ability of people to generate new models. All over the world there are accelerators, labs – and many of them conception and execution, generation and adoption are much more integrated than in the past but for some people and places to access the networks to use them. And this is classic fight as in the Hamilton example where there is a bottom of movement from social innovation and entrepreneurship and the search for technocratic top-down enabling rule. So in a way where that comes together is that pragmatic discussion we've been very forensic about what are the constraining factors that limits the spread, and in many places we'll find where knowledge and politics come together and creates powers block the spread of knowledge economy and conversely what are the options for orchestrating things that may be fatal. Sometimes big firms can bring together knowledge and power in an emancipatory way. That is much easier to see in a big firm like an Amazon or a Google.

Unger: Geoff, I have a question for you. I know you are engaged in many places around the world. To what extent in your view is the project of establishing an inclusive vanguardism an articulated project in the world? That is, is this conception that I'm proposing a conception that is some sense already received in the world? Are the initiatives of inclusive innovation already being pursued such an understanding or not?

Mulgan: I think there are elements of practice which could be interpreted in this way but they would not use that framing. And maybe give one sentence or so on five different elements. Many education systems are trying to widen and deepen access to the skills of coding and digital making and so on, and that is part of an aim to create a much more inclusive approach to some of the skills in the knowledge economy. Then there's a big movement almost everywhere concerned with regional development to replicate some of

the elements of the dynamic centers of Silicon Valley, or London or Berlin and create similar regions and access to capital knowledge and networks for those place. Somewhere like Korea there's a deliberate effort to spread skills to civil societies in Big Data academies and so on. And again there's variants of that in many parts of the world. And again on regulation which is a key part of this, between anticipatory and inclusive regulation of the knowledge economy, Taiwan has been pioneering ways of using digital democracy linked to the parliament to include many more people in the framing of the rules of the game of the economy. But they are not theorized, no one would recognize the language of inclusive vanguardism – which is why I think this is a timely project which will link to a lot of islands of practice but which an overarching narrative and theory.

Unger: So none of the left or center-left parties in the major countries of the world have developed a political-economic project in a similar vocabulary. Their focus remains on compensatory redistribution rather than on the reconstruction of the institutional framework of the market economy.

Mulgan: Not in an advanced way. I think that would be a fair generalization.

Unger: So it seems to me this is the point in which our argument today intersects the agenda of contemporary politics. The left may offer compensations for the present form of globalization and for the insulator of economic vanguardism, but they don't propose to organize the inclusive vanguardism. They are one stop short of that, is that not your understanding?

Mulgan: I think you could put it slightly differently. I think there's an almost distributionist approach to the knowledge economy which is parties of the center and left emphasizing widening access to resources, to skills, to capabilities, but with an essentially unreformed institutional framework. So I think it would be fair to say the language is inclusive and in many ways overlaps with what you're talking about, but it doesn't involve a fundamental redesign of institutions for example.

Discussant: I'm going to start by saying how incredibly excited we should be right now. Essentially this huge change coming we could look at it on several levels, most fundamental we'll have a shift to a production technology we've never had. For thousands of years the whole of humanities existence we've dealt with goods that are rival. I can't go outside and snap fingers and have another car, I can't go out and snap my fingers and have a million houses or a million Ferraris. But you can literally click a button and create a million copies of War and Peace, or of the operating system that runs this computer, or even of the design of the chip set that runs it. That is the most extraordinary change possibly in the whole history of the economics of humanity. That change is coming whether it's related to digital technology or not, that is happening. Now the huge intersection, I would suggest, that creates for us the OECD and for the whole world, the single greatest policy opportunity of the 21<sup>st</sup> century, possibly only rivaled by what we do about climate change. And kind of we know what to do what to about climate change, we just have a really big problem with collective action problems. But why? So the question is think of it as a train, this technological change is coming – things could

derail it, but that is change coming it – infinite copies of software, of algorithms, that's coming – we have a huge switch point of where it's going that we are going to choose, and that's a policy choice. You could describe it as democratization vs. dictatorship of that information economy, or in the paper I've given out which is called 'openness vs. closed', I've worked in what's called openness for a long time – and let me just illustrate the impact of why it's so momentous maybe in a trivial sense. Which is I would argue to you for a moment the single greatest cause of Mr. Trump's election as 45<sup>th</sup> president of the US was the closed information economy we've had for the last 40 years. And just bare with me for two seconds here so we can see the connection with what we're talking about today and some of the most momentous developments of our time, which is quite simply if you look at Trump, Trump was elected a large core of his supporters in swing states was blue collar and white collars who've been seeing their jobs disappear and their wages go down for about 30 to 40 years. Whether you agree with them or not, that's what they've seen, and they're angry. Trump gave them something to blame. Today Google can change an election by what they put on the front page, there's research showing that. And we have no transparency, along with openness which would create transparency would come spread of information about how google search works or how facebook's feed work, we'd get two for the price of one.

### **3. The Failure of Classical Developmental Economics**

Unger: In response to your argument my suggestion is that we conceive innovation in the regime of intellectual property as a salient forward aspect of a larger program of renovation in the institutional arrangements of the market economy. But what I next propose to do is to look to two bodies of ideas for inspiration in the effort to address this enigma of confinement. Of the confinement of the knowledge economy. And the first body of ideas is development economics. So I'm going to make a set of claims about the lessons of development economics and its contemporary failure. So first an interpretation of the central message of development economics. In its classical period by which I mean the second half of the 20<sup>th</sup> century from the aftermath of the second world war to the 1990s, its message could be interpreted in the following way: development depends on a combination of progress with respect to fundamentals and structural change. By fundamentals the development economists meant education and institutions. So they exalted the importance of education but said very little about it, they did not need to say very much about it because their sectoral program which was to advance for mass production required very little education. The education required for mass production is 1) knowing how to obey, to take orders 2) elemental numeracy and literacy 3) physical dexterity, especially hand eye coordination. That's all that a worker in a Fordist factory needs. And for institutions they were satisfied with the then satisfied form of a regulated market economy that would give a salient role to technocratic staffer class, a planning ministry or its equivalent. So the fundamentals of education in institutions could be left in the background and the central part of the message was what they described as structural change. Now what they meant by structural change was actually just sectoral change, it was the transfer of workers and resources from less productive to more productive sectors, and in particular from agriculture to manufacturing. So the idea was in the long term development would be constrained by fundamentals, but in the short term a vast

boost of development could be achieved by sectoral change orchestrated by a planning bureaucracy backed up by the politicians. That was the message of development economics.

Now a short version of the story is that this formula no longer works. Development cannot be achieved or sustained successfully by transferring workers from agricultural or its equivalent to manufacturing. Why does it no longer work? First, because the advanced knowledge intensive fringe is increasingly able to out-compete belated Fordist manufacturing. Second, because in the area that is still reserved for belated Fordism there is always in the world a competitor able to manufacture at lower wages. And third, because in every economy in the world manufacturing represents an ever smaller part of the economy occupying an ever more limited set of the labor force with ever less political influence. So then you could say the formula of development that relies on belated Fordist mass production is no longer available, the road is blocked, what's the alternative to that road? The alternative would be to convert to the knowledge economy. But if the knowledge economy is insular even in the most advanced and richest economy of the world how could it be established in a relatively inclusive form, in the more primitive conditions of a developing country. So it seems a mountain too steep to climb. So there's the dilemma.

Now let me give you an example of the manifestation of the dilemma in a particular country, in my country Brazil. The heart of the Brazilian industrial system established in the south east of the country especially in the state of Saom Paolo in the mid-20<sup>th</sup> century is belated Fordist mass production. It achieved standards of manufacturing excellence but it is relatively retrograde in its technological and organizational core. And its competitive only on the basis of a severe restraint on returns to labor. We then have two distinct projects of industrial transformation. There's the relatively easier and more evident project of promoting in the traditional industrial centers of movement beyond mass production to the knowledge economy. But then there's a second project which is much more important and much more difficult to implement and even to formulate. The second project is in the rest of the country to establish a direct passage from pre-Fordism to post-Fordism without condemning the rest of the country to languish in the purgatory of belated Fordism. So in other words the rest of the country should not become forced to be the Saom Paolo of the mid-20<sup>th</sup> century in order later to become something else. But how is that to be done? So it seems that if we don't know how to do that in even the countries with the highest educational capabilities the relatively greater conditions of equality, how could we do that in Brazil?

So now there are three implications of this argument. The first implication is that the problem of the overcoming of the insularity of the knowledge economy is no longer a problem specific to only the most advanced economies in the world, it is a worldwide problem. It's a problem of every economy in the world as much of China or India or Brazil as it is of the US, Germany, and Japan. The second lesson is that this problem presents itself in the form of a characteristic dilemma worldwide. The road back, the regression to mass production, is blocked, it has no future; but the road forward to an inclusive form of vanguardism, to the knowledge economy, seems inaccessible. Now this

problem presents itself in the contemporary political debates. For example what are the political-economic projects of right-wing populism and of the traditional social democratic parties. Surprisingly they are more or less the same, they have two main elements: the first element is the attempt to give an afterlife to traditional mass production by defensive measures, and by direct or indirect subsidies. And the second part is the place restraints on trade. It's the same project of the right and of the left, and it's a failed project or a project with no future for the same reasons. So the other project, the other project of the inclusive vanguardism, is the project that doesn't exist. That's the topic of our discussion. Now then comes the third lesson, to derive from this little raid on development economics – the third lesson is that the escape forward given that their no escape backwards, depends on the ability the decompose the task into elements and into steps. If the task is conceived as a single task, as an indivisible package that is accomplished all together or not at all, then it's impossible to implement it. It can be implemented only if we succeed in decomposing it into different parts. And in imagining each of these parts as susceptible to a succession of steps. So that's a gesture to the later moments of the argument that I want to make. So that's all I want to say with respect to the development because essentially what I'm suggesting is to raise the stakes in the argument so that it's no longer just an argument about a small cadre of advanced economies, it's an argument about the whole world. And it's an argument in which the major project of the left and right forces is a failed project, and the only project that has the potential is the project that's not on the scene.

Moderator: One of the natural things that follows from what you said is that most political forces and most popular unrest is based on looking backwards. And what you're saying as long as you look backwards you are looking at a project which is not going anywhere, what your trying to do is persuade people to look forward, and that's probably a very difficult thing to do.

Unger: If I could just add a little bit to my picture it might help to focus. The descriptive picture of development economics is that the economy is divided into sectors and there's a hierarchy of more or less productive sectors. At the top of this hierarchy is manufacturing and the short term formula is then the transfer of workers and resources from the less productive to the most productive, and in particular to manufacturing. And together with that picture of the national economy goes a picture of the world economy. So the world division of labor has as its axis according to this view, trade between capital intensive and labor-intensive economies. Relatively advanced production, that is to say manufacturing, takes place primarily in the advanced economies. And primitive labor intensive production, especially agriculture in the peripheral economies. And the way you advanced in the world is by joining the forces that rely on capital-intensive manufacturing. Now we have a completely different situation, the advanced practice of production is present in every sector of the economy, but in each sector it is a fringe. The distinction among sectors is attenuated. So in the knowledge economy manufacturing becomes in a sense crystallized intellectual services. And the world division of labor can no longer be understood by this trade between capital intensive and labor-intensive economies, the knowledge intensive economy is present in all major economies of the world, developing or rich. And in a sense these advanced fringes of each national

economy are in more direct communion with one another than they are in communion with other parts of their own national economies. So if the world economy now has a commanding force the commanding force is this network of the fringes. So that's a situation that classical development economics is completely incapable of dealing with and its then the background to the problem of insularity that we're discussing here.

Discussant: In a couple of weeks time we are having a seminar in Germany with William to look at the history of the development systems committee, all of these issues on the table. But just to clarify what is the political debate in this country, in this week so Macron is proposing to alter to *travaux*, so that's an institutional and legal change that he wants to get through the parliament in the coming months. Now the extreme left is absolutely opposed to this, this is Mr. [some name], so there could be a battle on the streets. And [some name] says the problem is macroeconomic, that there's not enough demand, we need a 100 billion dollars from the EU to finance etc., so the extreme left is denying the need to change enterprise level packages are put together. Now on the whole question of the development model going from low productivity to high productivity, I agree that we are there, but what do you have to say about the economics of agglomeration and how that relates to the knowledge economy and hard work.

Unger: I think what's especially interesting in relation to your comment is the question of capital and labor. And your allusion to the proposed changes in the labor laws. So this change in the practice of production is associated with a momentous change in the condition of labor, through capital. So what we think of as the natural condition of labor in an advanced economy is the assembly of a stable labor force in large productive units such as Fordist factories under the edicts of large corporations. Actually that formulation only prevails in the world in the period from the mid 19<sup>th</sup> century to the mid 20<sup>th</sup> century, and it was preceded by several centuries in which labor was organized primarily on the basis of decentralized contractual arrangements, such as the arrangements that Karl Marx described as the putting out system in the early chapters of *Das Kapital*. Now we have in the world a new putting out system emerging, that is labor is once again organized on the basis increasingly of decentralized contractual arrangements, precarious labor. So the reduction of labor to conditions of precarious contractual employment is the reverse side of the insular form of vanguardism. It's another aspect of the same situation. There are then two positions with respect to the situation. One position is the position of the traditional left parties and the labor leaders, which is intransigently to combat contractual precarious employment as a fraudulent circumvention of the labor laws. And this is a position which has no future because it's impossible by decree to abolish changes in the practice of production. The second position is the neo-liberal position and the position of the surrendered social democrats who under the euphemism of flexibility accept the precarious condition of labor as an insuperable fate. So conventional social democracy is hollowed out, eviscerated under the label of flexibility. That would be necessary to have a third position. So the third position with respect to the relation of labor and capital would be to say yes labor can be performed under decentralized contractual arrangements but there has to be a new body of labor law to master this new reality of production so that contractual labor not mean radical economic security and precariousness. So a basic principle of this new set of labor laws would be a kind of sliding scale of the following

kind: you would say labor performed under contractual arrangement must be organized represented and protected. The more it is organized and represented the less it needs to be protected by direct legal intervention in the employee relation. But the less it is organized and represented the more it has to be protected. Now what then is the example of the protection I have in my mind. An example of the protection is a legal principle of price neutrality between stable and unstable labor; so labor can be flexibilized, that is it can be rendered under contract for the purpose of flexibility, but flexibility cannot become an excuse for the cheapening of labor. So labor that is performed under contractual conditions has to be remunerated in at least the equivalent way to the analogous labor performed in stable employment. The contractual of labor cannot serve as a reason for its cheapening. So that's an example. Now it's a remarkable that so far as I can see there's no left force that proposes any such thing. So all they propose is something that's impossible which is to decree that the suppression of the changes of the practices of production. So what I'm saying then in response to this provocation of yours is that the project of the establishing the knowledge economy in an inclusive form has as one of its several counterparts a new legal regime of relations between capital and labor. So labor can be and should be flexibilized, but flexibility should not become an instrument for the degeneration of labor viz a viz capital; which would be a fatal blow against technological and organizational innovation. We know from economic history that a major impulse to innovation is the enhancement of the condition of labor. There's not going to be innovation in a slave economy. Precarious labor is a diluted form of enserfment. So there we have two elements of an alternative progressive project.

Discussant: Regarding the challenge you just raised, it's interesting the more we discuss the more we go to institutional arrangements that can represent an alternative I assume, the sense the direction of your proposal. Yes this proposal to remunerate flexible labor at least as much if not more as stable labor it's difficult in an open economy, and then we would have to address the scale within which new institutional arrangements will have to be found. I want to raise three very quick points. One is about how empirical work on firms your assumption these insular vanguardism is not confined in the net economy but cuts across sectors, our financial and business output shows how productivity increases in each sector by even very traditional automotive and electronics, but the top 10% frontier firms. And then I want to touch on one of your assumptions from the beginning, and perhaps question it a little bit that there's been an attenuation in contract between execution and conception. And there are some theorists of labor that challenge this and say that even automatic the production processes there's so much dead labor that is incorporated etc. that the autonomy of those people that monitor the whole production process is not strong and therefore is not that much decoupled as you say it is. But then I think we need to dig a little deeper a little bit further into this hypothesis and if you want benefits of the knowledge economy where to be largely diffused and not captured in some islands then it would raise the issue of how is the labor, I mean, if you are coherent with this hypothesis, if there's a stronger relaxation like you claim then, and if the production process allows to produce at a very mass scale with only a little bit labor. Then there's the issue of how we share labor. And then I would like you to dig a little bit into this, because otherwise that would lead to other forms of inequality, where you have just a few people who could get access to a stock of jobs that by definition should decrease.

Unger: I am conjecturing and this conjecture is entirely orthodox, it's pure economic orthodoxy. That there's no lump sum of labor, and that this transformation of the conditions of production will create new activity, new jobs while destroying others. But the other comment that I want to make, that in all of these discussions a confusion is the confusion between the description of the knowledge economy as it now exists in its confined form and its potential if it were radicalized. And by its radicalization I mean both its deepening and its extension in scope. So I don't think we can infer any reliable conclusions from the description of something like the Toyota method of production. It's obvious that under the Toyota practice its substantial element of contrast between conception and execution survives. But the Toyota practice was never meant to be an economic revolution, it's an adaption of the new technologies and practice of production to an untransformed institutional framework, in which the managers remain the agents of capital, attempting to motivate the workers but without having their power of control expropriated. So it's not possible read the potential of the practice of production from that experience, it's an experience under constraint. And a major object of the discussion here is to imagine the relaxation of those constraints through cumulative institutional transformation. Now here the argument touches back on the methodological preliminaries. We think of structural change systemically, it either happens all at once, through a systemic substitution, or it doesn't happen at all. So if I make an argument like this one it seems like it's a gesture to an impossible revolutionary transformation. But I'm not thinking of it that way. I'm thinking of structural change as something that happens, if it happens at all, piecemeal. And it's no less radical in its outcome for being gradual in its method. That's the way that I'm thinking about it, and I hope that will become clearer when we come later in the day to discuss the transformation of the legal and institutional architecture of the market economy.

(after lunch break)

Moderator: Okay people I guess we should restart.

#### **4. The Idea of Disruptive Innovation**

Unger: A second perspective on the ideas we need to think through the project of an inclusive vanguardism. From an open list this is an almost arbitrary choice of two among many possible sources of inspiration. And here I want to choose as the source of inspiration ideas about disruptive innovation, in the language of the business schools. And the firms that exemplify the highest form of disruptive innovation. Now I remind you of the essential content of the concept of disruptive innovation. A firm that practices disruptive innovation is a firm that marries new lines of production, new technologies, and new business models to create new markets and new demands. In other words, the firm does not operate solely on the supply side; it operates also on the demand side. It creates demands that never existed before. And typically, according to this literature of the business schools, disruptive innovation, unlike efficiency enhancing innovation, are capital-intensive rather than capital-sparing. Now one way to think about disruptive innovation at the level of the firm is that it represents an adaption of the most innovative

firms to a macro-context in which the problem of relating breakthroughs in supply to breakthroughs in demand has not been solved. Given that it has not been solved at the macro-level the disruptive innovative firm tries to solve it at the micro-level for itself. So this idea then provides an opportunity to relate the problem of the insular, or inclusive, vanguardism to the more general problem of organizing socially inclusive economic growth. Let me approach this problem in the following way: you're all familiar with Henry Ford's quip that he liked to pay his workers well so they could buy his automobiles. And this of course was facetious because his workers could use his wages to buy the automobiles of his competitors or to buy something altogether different. And what the joke illustrates is that the problem of relating breakthroughs on the supply side to breakthroughs on the demand side is not a problem that can be solved by private contract it can only be solved institutionally, it cannot be solved at the micro level it can only be solved at the macro level.

Keynes' doctrine famously is predicated on the violation of Saye's law – supply fails to create its own demand. But that could be seen as simply a special case of a much more general problem, and the much more general problem is the fundamental heterogeneity of breakthroughs on the demand side and breakthroughs on the supply side of the economy. Let me explain what I mean. Imagine first a spectrum of ways of dealing with constraints on the supply side, by a modal firm in the economy. In this spectrum step one is the firm produces and keeps only what it can immediately sell – it builds up no inventory in anticipation of future demand. Step two, is the firm builds up inventory in anticipation of future demand, but without innovating or expanding output. Step three is the firm expands output but without innovating, in anticipation of future demand. Step four is the firm expands output and innovates in the way of producing output, but it is efficiency enhancing and capital-sparing innovation. Step five is the firm practices disruptive innovation, it innovates in ways that are capital intensive and that help to create new demands, new customers, new markets – but only in its micro world. And if we can then imagine the next extension, the missing extension of this spectrum, step six would be that the problem of the creation of demand adequate to the new supply is resolved not just at the micro level but at the macro level. Now consider the more simple spectrum on the side of demand. How do we break through constraints on demand? Step one is we simply expand credit without changing the distribution of income or advantage. Step two is we increase purchasing power through compensatory and retrospective redistribution by tax and transfer, for example conditional cash transfer programs, progressive taxation, redistributive social entitlements. Step three is we adopt institutional innovations that reshape the primary distribution of economic advantage rather than trying to correct the distribution after the fact through compensatory redistribution by progressive taxation or by redistributive social entitlements. And if we then imagine one step further, an imaginary extension of this spectrum, we imagine a subset of these institutional innovations that would increase economic advantage by extending access to the advanced practice of production, what I've been calling inclusive vanguardism.

Now what this analysis illustrates is the following proposition: there is no automatic relation, no guaranteed reciprocal causation, between any advance in the spectrum on demand and any advance in the spectrum of supply, or vice-versa. So for example it does

not follow from a progression from the expansion of credit to the expansion of income through compensatory redistribution that we would advance on the supply side from expansion of output without innovation to expansion of output with innovation. There is a complete heterogeneity and structural discontinuity between advance on the supply side and any advance on the demand side. And it's only at the end of the two spectras that the advance on the supply side and the advance on the demand side meet each other. So that's a simple way of presenting the problem of the organization of socially inclusive economic growth. The fundamental problem economic growth on this view is that it requires, in order to be inclusive, successive advances on both the supply side and on the demand side, successive breakthroughs of the constraints on supply and on demand. And these advances provoke each other; they guarantee each other, only at the end, not before. And that's a way of understanding why it's so hard to organize socially inclusive economic growth. The project of organizing and inclusive vanguardism is a way of describing the imaginary point at which these two spectrum meet. Before that they don't meet.

Now let's place this in a simple context of intellectual history in practical economics. Today on the whole in the world the progressives have no economic project for the supply side. When they lost faith in Marxism they embraced as its successor vulgar Keynesianism. And practical Keynesianism is only a doctrine for managing the economy on the demand side; it has no project for the supply side. And it has no intellectual instruments with which to develop such a project, all the central categories of Keynes's system – the propensity to consume, the preference for liquidity, the state of long term explanations -- are psychological categories. Even in relation to the main line of English political economy, Keynes' system represents a regression rather than an advance. A regression back to pure psychologism without any institutional content. So in this sense what I'm calling an inclusive vanguardism is a solution to this problem because an inclusive vanguardism would represent an advance on both the demand side and the supply side of the economy. And it would require as one of its constituent elements what the progressive lack, which is a project for the reconstruction of the economy on the supply side. So that's all that I want to say for the moment, and it's another way of criticizing the available economic ideas and imagining their reconstruction.

Moderator: So who would like to react?

Discussant: Well thank you again for giving us this framework. Now Keynesianism is a demand side theory and no proposals exist for how to go beyond that. In chapter 12, the state of long term explanations, there is a proposal that never got developed by Keynes. But he's really put the problem that you've just put. There's a ghost in that chapter which I would call the public entrepreneur, who has to somehow resolve this question. Of course the animal spirits are Keynes sort of solution, but without the public entrepreneur, the public entrepreneur has to create those, and that's what he says in chapter 12.

Unger: A short comment about Keynes, which is an aside in our conversation but has some relevance to our attitudes. Keynes's writings, his occasional writings, including his journalistic writings before the general theory are in many respects more radical and

more profound than the general theory. So in many of his occasional journalistic pieces he explores different ways in which the public authority could acquire influence over the investment decision. In other words they are not just demand theories. But he deliberately rejected these options when he came to write the general theory. He rejected all the options that would require the political reshaping of the investment decision. And he rejected apparently because he considered them politically unpalatable. So Keynes was very worldly and he wanted to shine in his own time, not just for posterity and not to be mistaken for some kind of leftist, and the premise of the general theory is chosen for pre-theoretical reasons for circumstantial reasons, one might even say for career reasons, and the depth of his doctrine was compromised and corrupted by his worldliness. Illustrating the proposition that the worldly are unable to change the world.

Discussant: When I read chapter 12 I see this public entrepreneur and there are people working on a new theory of public entrepreneurship at Cambridge and others, and their ideas is that the economy emerges through close interaction between the public and private entrepreneurs, that the economy is an outcome of those interactions, so there is a role for an active state, which goes back to Hamilton. By the way, the new US trade representative is a great fan of Hamilton, he keeps that report close to him. We have a Trump administration which is putting together a deep elemental state in the US as it was in another era.

Discussant: Part of this as I echo it is about an intellectual bankruptcy particularly on the progressive life, on the economic side. And I actually think it extends to both the left and right on the economic side, basically on both the left and right there's become an intellectual bankruptcy that's reduced it to simple managerialism at best. And on the right this kind of excitement of free markets has in many cases become reduced to a cloak for big business self-interest. Google is one of the single lobbyist in the US, outspends Pharma. On the left we've either become economically conservative, we just want to turn back the clock, or marginalized and forced to adopt opponents' things. And the interesting thing on both sides is that the markets no longer work. To go into what's changed, what's implicit, what's changed, why's the knowledge economy come about. To go back to one of the big things, it's the end of markets in the classical sense. Markets come into existence through institutions, it's a moment for renewal. Because basically if we are in this knowledge if we are in a world of nonrival goods, it's the end of freemarket competitions. Current digital capitalism looks like a casino where more than the Schumpeterian, you go in and you bet and a few people walk out infinitely rich, they have an infinitely copy machine. On your phone there is one operating system, and Bill Gates can stamp more copies for that costlteeessly, all there is Schumpeterian style, not even Schumpeterian Cronus style. Microsoft and Facebook spend most of their time eating their children, but one they won't be able to. Facebook might eat Google, Google might eat Microsoft going on. But basically it's the end of traditional competition, most of the time its not even contestable. Tell me with a straight face, unless your Hal Varian, that Google has a contestable monopoly, it's just not. For both the right and left there's a question of what's going to happen, Stiglitz has been writing articles in the FT saying this. So what you've got is an opportunity to create a new market, decentralized markets, we can reinvent but we will have to do something about the knowledge economy because

it has this 0 1 nature. People like Peter Thiel get this, he thinks its great to have lots of monopolies, but in general its not good for most of us. The right, that intellectual bankruptcy is coming, for example Trump is not a Republican, or the right it's a bankruptcy of most of the intellectual innovation they've had in the last 30 years, for good or ill. You actually have reactionary in the office, someone's who out to destroy the Republican party in the US. And whether for the right or the left I think you have some kind of opportunity, I mean markets, but also something where you can have something different. That's why I keep saying openness, you can have markets with openness. Suddenly you have this opportunity because you have magic, you can infinitely copy; never before in human history – and going to the supply side if you want to riff on that, the supply side is really weird now. Supply side is not constrained by normal products of action, even when you get angry birds anyone can play it. Who here has watched Gangnam style [raises hand], 'come on be proud. If you checked it its been watched 3.5 billion times, that means those bits have been copied 3.5 billion times on Youtube. And at most if you factor in bandwidth costs that's a million dollars or so. So suddenly supply and demand is completely unlinked, you can produce infinites once you've got it. So it's the end of free markets you can create free markets in some new guise. I feel that's a fair distillation of where you're going.

Unger: But in this discussion there are two central claims about the content of a progressive project that would contribute to socially inclusive economic growth. So the first claim is that any advance achieved by compensatory redistribution through tax and transfer is secondary to an advance achieved by institutional initiatives that shape the primary distribution of economic advantage. So as long as we attempt to achieve an advance by retrospective correction we set up a conflict between the efficiency and equity, and we place the egalitarian aim (intention) with the structure of economic consequences. Now among the initiatives that influence the primary distribution of economic advantage a special salience attaches to those that allow for engagement in the advanced practice of production. So that's the first claim. The second claim is that it's not good enough to have a project for the demand side of the economy. We need to have a project for the supply side of the economy. And once again among those projects for the supply side of the economy a special privilege attaches to the subset of projects that has to do with the social scope of the most advanced practice of production. So that's where the breakthroughs in the constraints on supply and demand meet, that's the argument.

Discussant: A question because I'm really looking forward to the following of the conversation because I'm sure that you will provide some highlights about how to relax the constraints on the demand side as well. Because as much as I very well agree with you on the fact the left once it has shifted from Marxism to Keynesianism had a theory just to address the demand side and Keynes shares this in general theory that the enterprise is a black box, there's nothing about entrepreneurial qualities, networks, conventions that are shaped at the level of the firm, at the company – and you're right that somehow the left has dismissed this, but at the same time there needs to be a breakthrough on the demand side especially at a time like ours where we see that there's an over accumulation of capital at many parts of the world especially in emerging economies, how do you address this side of the equation.

Unger: For an example regarding the relation of labor to capital, so that was the discussion we had about precariousness. So that's an example of an institutional change that directly influences the demand side of the economy. But in a way that communicates with change on the supply side. So this is a remarkable example of the failures of economic science. If there is a characteristic dogma of practical enigma it's the dogma that the return to labor cannot advance above the rise of productivity. Now if all that dogma needs is that it's not sufficient to decree a rise in the nominal wage because it will immediately be undone by inflation, it's trivially true. But otherwise we know that the dogma can't be true, because if we compare countries at similar levels of development and control for differences of factor endowments there are striking disparities in the distribution of national income between capital and labor. And the only residual explanation of these disparities is differences in the institutional context, in the relative powers of capital and labor. So in the spirit of this argument the most significant changes on the demand side are those that enhance the power of labor viz a viz capital. And we had a discussion about that – that's an example! Because there's change in the practice of production, labor is performed under contractual conditions, and then the two options that are on the table are either to decree the abolition of the contractual arrangements, or to accept them unreservedly confusing flexibility with precariousness. So we have to respond then by innovating in the institutional and legal framework of the relations between labor and capital to prevent flexibility from degenerating into insecurity, and into the cheapening of labor.

## **5. Cognitive and Educational Requirements of Inclusive Vanguardism**

Unger: Now we come to the part of the discussion about the requirements for an inclusive vanguardism. And I am going to describe those requirements in three steps of which the most important is the third. So maybe for the sake of compression I'll deal with all three at the same time. And we'll have a general discussion.

So first there are the cognitive educational requirements. Unlike Fordist mass production the knowledge economy does have stringent educational requirements. What kind of education does it require? It requires a form of education with the following four attributes: the first attribute is that it should have as its primary goal the enhancement of analytic and synthetic capabilities, rather than the mastery of information. So these are the attributes that we associate with the imagination. The mind has two sides – in one side the mind is like a machine, it's modular and formulaic – in the other side the mind is an anti-machine, it's not modular it's not formulaic, it has the ability to recombine everything with everything else that we call recursive infinity, and it has the power to transgress its own methods and presuppositions. This is the side of the mind that we call the imagination. The relative power of these two sides of the mind is not determined by anything physical about the brain although it is enabled by certain characteristics of the brain such as its functional plasticity. The relative power of these two sides of the mind is determined by the organization of society and of culture. And in this sense the history of politics is internal to the history of the mind. So the primary goal of education must be to

enhance these capabilities of analysis and synthesis that are associated with the imagination.

The second attribute of education has to do with its approach to content. Analytic and synthetic abilities cannot be required in a vacuum of content; they can be required only in dealing with content. But what matters with respect to content is less encyclopedic coverage than it is selective depth. It doesn't matter that it embraces the encyclopedia, what matters is it be deep. It can only be deep by being selective – so associated with themes or with projects rather than with the encyclopedia.

The third attribute of education is that in its social setting it must as much as possible be cooperative and follow the practices of advanced science. So teams of students and of teachers rather than the juxtaposition of authoritarianism and individualism in the classroom.

And the fourth attribute of education is the least familiar and the most important and that is that education be conducted dialectically. Every subject must be taught at least twice from opposing points of view. No subject must be allowed to be taught just once, and this is the only way to liberate the mind. So in the orthodoxies of the university culture there is in every field a marriage of method to subject matter, the most egregious instance of this naturalization of the marriage of method to subject matter is economics because economics is not the study of the economy but the study of this peculiar method that criticized earlier today. The national curriculums in the world infantilize the orthodoxy of the university culture. They present back to the young this naturalization of method and subject matter attempting to induce in the young the confusion of the dominant ideas with the way things are. And in this way they emasculate the young and deliver them to the later stages of education prepared for a life of intellectual servility. The object of education is to immunize the young against intellectual servility so they arrive at the later stages of education already recalcitrant to the orthodoxies of the higher academic culture. This is the program of education, the only program that is adequate to the conditions of inclusive vanguardism.

Now I've described this program with respect to general education. But it has an equivalent for technical education. So the traditional model of technical education most admired in the world is the German model of job-specific and machine-specific technical education. And instead we need now a form of technical education that is focused on the higher-order or meta-capabilities required for the use of numerically controlled machine tools. Not dedicated machines and not rigid or conventional professions. Now such a form of technical education is not starkly opposed to the model of general education that I described a moment ago, it's on a continuum with that model of general education. The most important practical requirement for the implementation of a pedagogic model like the one that I have just described for both general and technical education is the existence in a country of a pedagogical vanguard. Such a program cannot be implemented simply by a tiny cadre of visionaries and politicians, there has to be a group of hundreds or of thousands of teachers who collectively develop such a project. But the truth is that in every major country in the world there are appear to be already the fragments of such a

pedagogic vanguard which then has to be mobilized in favor of such a project. Now I want to say one more word about the educational requirements. In countries that are large, very unequal and federal in structure, like the United States or Brazil, it is necessary to reconcile the local management of the schools with national standards of investment and quality. The quality of the education that a young person receives should not be determined by the happenstance of where it is born or to whom it is born. To reconcile national standards with local management we require three instruments. The first is a national system of performance, of assessment, of the schools. The second is the mechanism of redistribution to redistribute resources and staff from richer places to poorer places. And the third is a procedure for corrective intervention when despite all efforts a local school system repeatedly falls below the minimum acceptable threshold of quality -- not a federal intervention but an association of the three levels of the federation in common bodies that take over a local failing school system, assign its correction to independent administrators, fix it and return it fixed as one would recover a failing firm in a chapter 11 bankruptcy under American bankruptcy law. So that's an outline of the educational-cognitive requirements and the central theme, the axis of this proposal, is the cultivation of the powers of the imagination and their wide diffusion in the population rather than their confinement to a small elite.

## **6. Social-moral Requirements of Inclusive Vanguardism**

Now a second set of requirements of inclusive vanguardism are the social-moral requirements. So I argued before in my characterization of the knowledge economy that it depends on a heightening of trust and discretion and therefore on an accumulation of social capital, of the disposition to cooperate, of the skill to cooperate. Now I make an aside on a fascinating theme of social theory. The ability to cooperate is obviously very unevenly distributed in the world. Some societies are good at it, and some are bad at it. And it is loosely associated with the accumulation of social capital. So some countries have experimented with different institutional systems and have failed at all of them, and a major element in their repeated failure has been their difficulty in this ability to cooperate. Other countries have demonstrated their ability to succeed in the use of very different institutional systems. Let me give you an example of the United States. So one of the least understood episodes in American economic history is the remarkable episode of the war economy, the Second World War. The Americans are supposedly devoted to a dogma about the organization of the market economy. But when they needed to and when they wanted to they cast this dogma aside as if it were only a mask to which they were not intimately devoted, and they organized their economy on completely different principles. In the Second World War there was a massive mobilization of economic resources. The top marginal rate of the personal income tax rose above ninety percent, a fact that is incomprehensible to Americans living today. And the American economy was organized on completely different principles -- on a free willing strategic coordination between government and private firms. The result was sensational. In four years between 1941 and 1945 GDP in the US more than doubled. A spectacular outcome never prefigured or repeated in American history. The basis was the ability to cooperate.

Now the question then is whether this disposition to cooperate in this accumulation of social capital is simply a brute fact about society or culture or whether it's something that we can do something about. And I want to argue that it is susceptible to revision and intervention through a series of combined and cumulative initiatives. So let me give you some examples. So first the organization of education, I said that one of its attributes should be that its social setting be cooperative and not the combination of individualism and authoritarianism. A second example is the way in which social services are provided, public services. So what generally prevails in the world by way of the provision of public services is what you could call an administrative Fordism. The provision of low quality standardized public services by the bureaucratic apparatus of the state. And when I say low quality all I mean is of lower quality than the analogous services that could be bought on the market by people who have money. The only alternative to administrative Fordism appears to be the privatization of public services in favor of profit driven firms. But there's in fact another alternative: the other alternative is that the state help organize an finance independent civil society as its partner in the provision of public services. So this system would work in the following manner: the state would provide to all of the citizens a universal floor of minimum public services for everyone. At the same time the state would operate at the ceiling in the development and funding of the most complex and costly public services. But in the broad middle zone between the floor and the ceiling the state would engage independent civil society to participate together with it the state in the competitive and experimental provision of public services as the most promising way to enhance their quality – through cooperatives of service providers: of teachers, of doctors and so on forth. And thus if we imagine public services as the building of people, society would build itself through its engagement with the provision of public services. That's a second example of the enhancement of the disposition to cooperate.

A third example is social service. So the principle should be established that every abled body citizen should have at least two functions – every abled body citizen should have a position in the production system and every abled body citizen should have an obligation to take care of other people outside the boundaries of his own family during a part of the working year or a part of his life – for example if he is dispensed from military service he should have an obligation of mandatory social service. The only adequate practical basis of social solidarity is direct responsibility to take care of other people. Money transfer organized by the state is not an adequate social cement. In the European societies they appear to be a sufficient social cement only so long as a high degree of ethnic and cultural homogeneity was sustained. And as soon as this homogeneity began to erode the inadequacy of money as a social cement became manifest. The only adequate social cement is direct engagement in other people's lives. So my thesis is therefore that this second set of requirements, of an inclusive vanguardism, is susceptible to public action by means such as the ones I've just enumerated.

## 7. Legal and Institutional Trajectory of Inclusive Vanguardism

Now I come to the third category of requirements of an inclusive vanguardism. The first set were the cognitive-educational requirements, the second set were the social-moral requirements, and the third set (and in some sense the most important and the most controversial) are the legal-institutional requirements. The premise of this argument about the legal-institutional arguments is the one to which I alluded earlier today at the beginning of my remarks : a market economy has no single natural and necessary form – The central proposition established by legal thought over the last 150 years which has never fully penetrated the inner sanctum of practical economics. The institutionally different forms of a market economy matter not just for the distribution of economic advantage but for the organization of production and exchange. We can see this even at the most abstract level, even at the most abstract level in the conception of the market economy the idea of the market has at least two dimensions: one dimension is the absolute level of economic decentralization, the number of economic agents who are able to bargain on their initiative and for their own account. The second dimension in the abstract idea of the market is the degree of control that each of those agents enjoys over the resources at his command – we call that property. The traditional way of thinking about the market economy supposes that there is a simply direct relation between absolute decentralization, the first dimension of the market, and absoluteness of control – the second dimension. But there is no such relation. And it's easily possible to imagine that we could increase the amount of absolute decentralization by diminishing the absoluteness of the control. That is, by creating claims to property, to access, to decentralized capital, that are in different ways conditional or temporary. We could actually increase the absolute amount of economic decentralization – you gave the example before when you were discussing intellectual property, and it's simply one example among many.

So in this spirit imagine three steps or three stages in the legal and institutional reconstruction of the market economy for the purpose of creating the legal architecture hospitable to an inclusive vanguardism. In the first stage our focus is simply on the increase of access to credit, to technology, to advanced practice, and to markets both domestic and global. So many countries have agencies or entities that deal with one or another form of access. But what is much rarer in the world is a consequential orchestration of these forms of access. So for example access to credit is likely to have very little significance if it's not combined with access to advanced practice and technology. So there has to be an expansion of access especially in favor of small and medium firms, the different forms of access have to be orchestrated, and there has to be a mechanism to identify which experiments work and to disseminate them rapidly. So this is the opposite of the idea of choosing a priori the sectors that are interesting for the future. We are agnostic about sectors but bowled about procedures in the organization of a radicalized experimentalism. So let's say that's the first stage. The second stage is the evolution out of this first stage of a new institutional structure of the market economy on two axes: a vertical axis of the relation of the government to firms, especially small and medium-sized firms; and a horizontal axis of the relation among firms. On the vertical access they are two main models of government-business relation on offer in the world. There's the American

model of arms-length regulation of business by government, and there's the northeast Asian model of formulation of a unitary trade and industrial policy imposed top-down by the bureaucratic apparatus of the state. We would require a third model – a form of strategic coordination between governments and firms, especially small and medium-sized firms, that is pluralistic, decentralized, participatory, and experimental; and that has as its major goal the expansion of engagement in the advanced practices of the knowledge economy. And on the horizontal axis of the relations among firms the cumulative organization of cooperative competition so that these firms can cooperate with one another achieving economies of scale in certain aspects of their activity even as they continue to compete against one another, and we have that model in 19<sup>th</sup> Century family agriculture, but not generalized for the economy as a whole. Then comes the third stage, represented as an evolution out of the second stage which is the creation of alternative property and contract regimes, that is to say of alternative ways of organizing decentralized access to productive resources and opportunities. There should not be a unique form of decentralization; there is no reason why the market economy should be nailed to the cross of a single version of itself.

So take the property regime: the unified property right vesting all of the constituent powers of property in a single owner, the inventor, was an invention of the 19<sup>th</sup> Century. And an anomaly in the history of law, and it has an advantage for certain parts of economic activity. The basic advantage of the unified property right is that it allows an entrepreneur to do something in which no one else believes without having to establish a consensus. But it's not the desirable form of organization for other aspects of economic activity. If we want to reconcile more decentralization with more aggregation of resources, if we want different tiers of right-holders – workers, local communities, and local governments, as well as investors – to hold super-imposed claims on the same productive resources, then we want a series of disaggregated, or conditional, or temporary property rights; and thus different regimes of contract and property – unified property and disaggregated property, fully-articulated contractual bargains and incomplete contracts – to coexist experimentally within the same market economy. Different versions of the market economy should coexist experimentally within the same market order, and in this way the economic agents in addition to innovating in ways of recombining the factors of production should be able to innovate in the arrangements that define the institutional framework of production and exchange. And that's the higher form of what I'm calling the third stage in the evolution of the institutional architecture of the market economy.

So I've now provided an outline dogmatically and scholastically but I hope clearly of what I see clearly as the three sets of proximate requirements of an inclusive vanguardism. And I offer it as an example of what it means to have a progressive approach to the supply side of the economy.

Discussant: You mention in a lot of your books that we are missing the crisis of the imagination, so my question is how do you create the incentive for the very owners of that institutional arrangement right now to take ownership with self-destroying their own

institutional arrangement? Like how do you incentivize political leaders to take a hold of that?

Unger: Are you asking me about the schools specifically, or is it a more general question? Well I think it's a question that'll get us to the last stage of the discussion. Which is the cultural and political background to the fulfillment of these institutional requirements. So the way I'm conceptually organizing the discussion is I'm imagining that there's these three sets of requirements that I've called the cognitive-educational, the social-moral, and the legal-institutional – but then you can ask the question what are the background conditions that make it relatively harder or easier for us to fulfill these requirements: what kind of culture, what kind of politics? – so that's the next set of questions. But this isn't a system, so it's not like the Marxist way of thinking that it's an indivisible package. It's an idea of combined and uneven development, so every part of this is related to every other part, but it's not the case that we can only advance if we advance uniformly.

So take the problem of education as an example. So I didn't invent this problem, this is a problem that has always existed for education under democracy. The greatest influences on the school are the family and the state. The state wants the child to work for the state, so useful to the present order. The family says to the child 'become like me'. Under a democracy the school cannot be the instrument of either the state or the family, the school has to save the child from both the family and the state. The school is the voice of the future in a democracy, the school recognizes in every child a tongue-tied prophet. That's the work of a school in a democracy. And this seems to be a work that's impossible to accomplish because the tangible powers of society are all lined up against it, and so we have to organize a system in which these powers are in some way thrown against each other, and a space is opened up for the experimentalism of society and culture, in which the future can speak – and save the child from the state and the family. And the more we enhance agency, the more we develop in the young a recalcitrance to orthodoxy, a disposition to defiance, the more they can speak for themselves and take their power into their own hands. So this is the dialectic on which we have to bet.

And if there is a central theme in all of this, the central theme is the enhancement of agency – it's the central idea in democracy, the greatness of the ordinary. And every aspect of this institutional program that I have outlined is a contribution to that idea.

Discussant: Huge program and there will be resistance, it's very interesting. I would like to address a comment and then a question with regards to your second point on the social-moral steps to an inclusive vanguardism, in this proposal that you made that public services somehow are delegated to citizen instead being bureaucratically managed by the state – I think it's a very important way forward to answer not only some of the disfunctionings of the system of solidarity that is pyramidal, beauracracic, and mediatized by these structures – but also in order to address the need relate more directly to the outcomes of this solidarity. I think citizens rejecting the baby with the bathtub because they don't see the outcomes of their contribution through tax of these solidarity – I don't know if its that much related to what you say to increasing the diverse ethnic composition of society, but clearly citizen reject these bureaucratic systems of providing public

services because they don't see the direct relationship between their contribution and the outcome, so that's very interesting. But then a challenge which is perhaps you have somehow addressed because you say the people who cope with these services provide the services somehow it's part-time which by hypothesis means that they are employed in the emergent system and therefore it's the same people that are in the market and provide that the public services, which is to me key, because otherwise you have the risk that those providers of public services are a new class of careers that are less payed than people working in the market because the productivity of services is lower and therefore again you have a segmentation and a demand problem. So I would just like to ...

Unger: It's the same principle. Take for example with respect to a, let's begin with the example of military service. So in a republic a mercenary army should be unacceptable, it's subversive of republics in principle. The army must be the nation in arms, the army cannot be a group of poor people paid by the rest to defend them, like a protorean guard. So it's the same thing. So with respect to public services society builds itself, society takes care of itself, society doesn't pay a bunch of nurses or caregivers to do the dirty work. This is the only possible basis of social cohesion of social solidarity – there's no other possible basis. Money is not a basis of social cohesion, it's an accessory device. So no society can be cohesive on the basis of skimming off money from rich people and then sending checks to a bunch of public employees to take care of the invalid. So it's a completely unacceptable principle and an example of the degeneration of social democracy that it accepted this radical reduction of social ambition.

Discussant: There's been a lot of talk on the advantages of incomplete contracts in terms of addressing some of the issues you mentioned such as added flexibility bringing the social dimension into it, because with an incomplete contract things aren't mechanically fixed, there's still something to bargain for, you still have the possibility to establish trust. And also incomplete contracts may have advantages in more tradition senses – they may reduce transaction costs if its too expensive to fix all the details – but a lot of that talk of the advantages of implementing with incomplete contracts is within organizations and firms, that is at a pretty small scale. Do you see any potential for using this form of approach – incomplete contracts at a higher level for this ...

Unger: It's a reality. Even in the existing, insular forms of vanguardism, incomplete contracts are essential. So for example the bio-tech firms collaborate with one another now with incomplete contracts in the US, that's how to work. There's no other way of organizing collaboration among advanced firms. It's not possible to do it through fully bargained out traditional bi-lateral executory promises.

Discussant: Yes but that's within a community, like a small cartel. Do you see possibilities of extending that to whole markets?

Unger: [some missing here] The second set of requirements of inclusive vanguardism, the social capital and the strengthening of the disposition to cooperate therefore cooperative competition. Now this has a very interesting legal manifestation which is not understood – economists in particular don't understand for example the history of law or the

organization of private law. The social democratic compromise of the mid-20<sup>th</sup> century was a compromise in which the would-be challengers to the established order renounced this challenge, renounced an attempt to reshape the power and production, and in exchange for this abdication the state was allowed to acquire the power to regulate, to redistribute retrospectively through tax and transfer, and to manage the economy countercyclically. That was the social-democratic compromise. Now none of the basic problems of the society can be resolved within the terms of the social-democratic compromise. Example, the hierarchical segmentation of the economy in the form of this abyss between advanced and backwards sectors – that can't be done in terms of the social-democratic compromise. The legal manifestation of the social-democratic compromise was the super-imposition of a new body of public law on a largely untransformed body of private law. So the law of contract and of property in the mid-20<sup>th</sup> century was barely changed, and what happened was that a new body of public law was created and it was simply put on top of the unchanged body of private law. One of the expressions of this project of inclusive vanguardism that I'm describing is that it requires a transformation a body of private law which was never accomplished in the 20<sup>th</sup> century – new regimes of property and contract. Now the materials, the legal materials, for this exercise already exist in fragmentary form. So in the law of property the central organizing principle is the unified property right invented in the 19<sup>th</sup> century, but the unified property right is surrounded by a penumbra of derivative and fragmentary property rights. The financial markets are organized on the basis of these fragmentary property rights. So financial derivatives in technical-legal terms, are derivatives of the property rights in just this sense – options contracts, hedging – they work with fragmentary property rights, their derivative from the unified property right. So the penumbra would have to become the core, but the penumbra already exists, it's not to be invented ex nihilo. Not only does it exist, but it's been used, eg to organize contemporary finance.

Now exactly the same thing happens in the law of contract. Intellectually the core of the law of contract is the fully articulated bargain, the bilateral executory promise. But this standard form of contract is already surrounded by a penumbra of semi-articulated bargains, incomplete contracts, ongoing relational contracts – they already exist, they're already part of the law. But in legal thought they are peripheral to the standard form – so once again the periphery becomes the starting point for the creation of a new core. So all of this has to do with the details. So we are accustomed to have an ideological debate in a contest of shadows, of shadowy abstractions – like capitalism and socialism, the market economy and the command economy – but this discussion that we're having is not about shadows, its about the details. And the alternatives are created in the details. From the inside out, from the bottom up. So you have small variations and the radicalization of small variations then leads to the creation of the institutional alternatives – it's a completely different principle of ideological dispute. So in this inherited model of ideological dispute in the practical questions of political economy the focus is the markets versus the state – more market less state? more state less market? synthesis of market and state? the social market economy, the regulated market economy and so forth. That's the model of ideological dispute that I'm ejecting and I'm putting in place of it another model of ideological dispute in which the question becomes which market, it's

not more market or less market, it's another kind of market with a different institutional and legal architecture in the details. So it doesn't arise by systemic substitution, say we have this system we'll either regulate it or replace it with another system, we'll convert the system into something else through piecemeal cumulative structural change manifest in the legal and institutional details. That's a completely different practice, and it's the practice that can be radical and gradualist at the same time, and that's what I'm proposing as the method.

Discussant: Thank you very much I feel very nervous even about putting my head above the trenches now due to the knowledge defect that I'm suffering. However, you raised the issue earlier about Brazil, what is the developmental model that it can pursue, and you gave the binary options of either transferring the Sao Paulo industrial hub to the knowledge economy, and for the rest of the country just bypassing that completely. The countries that I currently work with a lot, countries such as Ethiopia or Tanzania, these are countries whose long-term growth vision for the next 50 years the culmination of that is Fordist mass production. The African unions guiding vision is precisely around structural change in growth and manufacturing. That is the mantra that underpins all policy discussions. With everything we've discussed today my hope for convergence of developing countries, my hope for substantial reductions in poverty especially where you see the runaway population growth of Africa, I see less hope at four o'clock than I did at nine o'clock which is a worrying state of affairs. And I know this is an entirely different conversation, but just going back to your Brazil discussion – what would your diagnosis be.

Unger: I think that, so the idea to which you allude very widespread in the world, is that there's a linear evolutionary trajectory. So in order to get beyond Fordism you have to go through Fordism, belated-Fordism as I called it. And I think that's a mistake, I think it can't work. For all the reasons I stated previously. So then the problem is that the other alternative which is to establish advanced practice under the relatively primitive conditions of developing countries seems impossible, but it's not impossible, if it's decomposed into elements and steps as I argued. And if you think that the different pieces are not an indivisible package, that somehow you have to implement all simultaneously or not at all, and I think that calls for a radical redirection – a complete redirection. So these countries are stuck in a delayed version of the orthodoxies of the 1950s and 60s of classical developmental economics – it's a calamity. And that's them and then these other large developing countries, the BRICs countries, are each of them bent under the yoke of mental colonialism. So China subservient on one side to the fossilized ideas of the German philosopher and now on the other side to the secondhand carbon-copy of American style economics and social science. They have to throw off the yoke of mental colonialism, they have to develop the idea that they are not developed in the high academies of the north Atlantic world, and they have to have a national political life in which they can develop through conflict and controversy, clashing agendas of the national future. So the two basic constraints on liberation are thought and politics.

Moderator: By the way as a remark you used the word convergence and I think that's a sort of key word for the difference between the two views. Convergence suggests that

there is a natural path and we have to get there, whereas your view is that's not the right way to think, there's not a natural convergence.

Discussant: Two points, one regards again the delineation between what I would call the market sphere and the sphere of social engineering and of public services, seems key to me because as much as we said earlier that overcoming the current segmentation of societies and economies is only possible if the very same people that undertake job task in the market sphere are the same to those that are active in the field of social engineering and public services etc. seems to me that in order to make this possible you need to make space therefore time and there's the issue of labor time because if the market is too demanding then it's not possible. How do you address the challenge of the sharing of jobs and of time in the market sphere, that's one. And then the second thing is if we want to shift toward this alternative model of conventions that can help address the segmentation, then if you want to promote for instance, take the example of instance of adopting institutions that make the use of flexible work, more expensive than stable work. Then to do these in the context of the economy you need to do it simultaneously at the level of the most important countries. There's the issue of international coordination, otherwise those that'll bear higher costs (because it'll result in higher costs) will fail and it will hamper this experimentation, so these are the two points I would like you to address – delineation between the market sphere and the sphere engineering and the issue of sharing time, and then how do you do it when the context of an open economy in a coordinated manner at international level, alliances for instance.

Unger: I don't mean that there is a circumscribed level of demand for non-repeatable labor. So this is a claim I made at the beginning of our discussion. Now let me state it in a more radical form: no human being should be required to do the work that can be done by a machine. We should have machines to do for us everything that we have learned how to repeat. In principle there is a limited demand for the repeatable because that can be done mechanically, but in principle the demand unrepeatable labor is unlimited because we want from each other, from one another, is unlimited. Our services, the services we render one another, that has no limit. And one way to understand the project of this inclusive vanguardism is that it's manifest in a situation in which our time is reserved for the not less repeatable. That's a completely different idea from the idea of Karl Marx or of John Maynard Keynes, which is that economic life is a crucifixion from which we will be liberated. Then we'll be able to devote ourselves to privately sublimity, the private sublime. As opposed to the idea, which is underlying my argument, that the economy is not just a terrain of constraint – it's a terrain of liberation. We transform ourselves by attempting to transform the world. And we have to organize economic life so that this potential is revealed, so that it doesn't become a crucifixion. And then the economic manifestation is that there's unlimited demand for nonrepeatable labor. Now then there's the discussion of how we organize globalization, a topic that we haven't discussed. So I would say the same attitude applies, so the view that I've taken of the market economy is it's not there on a take it or leave it basis – it's not more market or less market, it's which market. Similarly with respect to globalization it's not more or less globalization, it's which globalization. So there's a project of globalization now in the world it should be attacked and overthrown. It has four principles, so the first

principle is it takes the maximization of free trade as its goal. The goal is not to maximize free trade, the goal is to organize within a world economy that gradually becomes more open a coexistence of alternative development trajectories and alternate experiences of civilization. Humanity develops its powers only by developing them in different directions. The second principle of the dominant form of globalization is institutional maximalism – it wants to incorporate into the rules of world trade and of the world economy a commitment not just to the abstract idea of the market, but to a particular version of the market. So it wants to incorporate into the rules of free trade under the label ‘subsidies’ all the forms of strategic coordination between governments and firms, it wants to incorporate into the rules of world trade the odious regime of intellectual property developed at the end of the 19<sup>th</sup> century and so forth. Instead we should want institutional minimalism. The maximum of economic openness with the minimum of constraint on institutional experiment, including experiment in the different ways of organizing a market economy; unless we have institutional minimalism all the friends of institutional alternatives will become enemy of economic openness unnecessarily. The third principle of the dominant form of globalization is money and things should acquire freedom to cross national frontiers, but people should be imprisoned in the nation-state, or blocks of relatively homogenous states such as the European Union – unacceptable. People, things, and money should acquire freedom together in small cumulative steps. There should be no radical distinction between the mobility for money and things and immobility for labor. And the fourth principle is that the basis of a free economy, an open economy in the world, should be free labor. And therefore arrangements hospital to alternatives like the alternatives we’ve been discussing.

Now there are three forms of free labor— wage labor, self-employment, and cooperation. In the 19<sup>th</sup> century all the liberals and socialists – John Stuart Mill just as much as Karl Marx, Abraham Lincoln – believed that wage labor was a transitional and defective form of free labor retaining many of the characteristics of slavery and serfdom. Wage labor became naturalized as the predominant form of free labor only late in the 19<sup>th</sup> century. And now we think it’s inevitable, but it’s not inevitable. Under the conditions of the knowledge economy the old 19<sup>th</sup> century idea becomes relevant again that we can organize the economy to give a gradually increasing role to the higher forms of free labor which are self-employment and cooperation. And the world economy has to be organized on that basis. Now how would such a change in the direction of globalization ever come about? It would never come about as the gift of an enlightened cosmopolitan technocracy to the world – it would only come about by struggle. Because if these organizations like the World Bank or the OECD continue on their present course what we will have is the doctrine of institutional convergence – all the ideas that I’ve been attacking in the course of our discussion today. It will only come about if there are strong national projects down below that hit against the limits imposed by this dominant form of globalization. Then there’ll be a struggle in the world until this form of globalization is overthrown. That’s the only way in which it can happen. And so it’s very natural that the focus of discussion should be the content of these strong national projects.

Discussant: It’s incredible to hear you say something so deeply, so I’m going to riff on a few of the ideas and kind of bring them out. Just one question which is fundamental for

some people in this room – there’s a potential people might leave today thinking just ‘wow incredible intellectual fireworks, ideas – how do we adopt? How do we get from here to there?’ And I know you talked about these incremental steps but I was just wondering if I could riff just a tiny bit to fill in, for some example the lady asked why adopt? One thing that maybe just reecho it, is this huge change. This move to this technology of production that allows for infinite copying means it’s kind of a win-win. And that’s incredibly rare. Most of the time it’s a story of tradeoffs. Obviously growth has been one of these win-win stories at certain points – technology has meant we get more. We just got a bigger pie we can share. But basically that transition is just this huge opportunity, and the story here is if you really want to take advantage of the knowledge economy, if you really want to get a fair – you want to get out of a stagnant world and be fair – you’ve got to go this route. But you’ve got a win-win. Suddenly it’s like you’re a child in a chocolate factory that’s just like lot’s of chocolate around. And so that’s one story for policy makers, because you’ve got goods that are infinitely copyable. Right now just to take a really concrete example, most developed economies in the world are intentionally denying medicines to their citizens that would save their lives and that are producible for them at a cost they can buy. For example my uncle right now is not receiving a medicine that costs 80,000 pounds a year but that could be manufactured for under a 1000 pounds. The NHS is simply saying we can’t pay for that. Now when you say they can’t pay, it can be produced. Right? Because of the patent. Now that’s a win-win if you can solve that if you can still pay the innovators. Now that comes to point two, let’s gloss a little bit on the extent of Professor Unger’s knowledge. Just take a stupid example IP is one of these weird proxies with this penumbra around it. You just look at IP rights there’s all kind of weird things about them right – first off they expire. Right? In the early 19<sup>th</sup> century English people used to travel to Brussels to get legal copies of books because they were cheaply printed, like Dickens, in the continent. And you could read, customers and officials had the right to search in people’s trunks for illegal books they were bringing back from the continent – but they never did. In addition in the early 19<sup>th</sup> century in Britain you could be transported to Australia, or hung, for theft. No one was ever hung or transported to Australia for illegally copying books. Just didn’t happen. So to go on there’s this whole set of proxy rights, or interesting rights, and we could restructure that. For example, Professor Unger was talking about, was also in the paper it turned out, a concrete model where you could have a market style system where you allow unlimited access – my uncle does not get denied access to his life-saving medicine – and innovators get paid, win-win with a new style of proxy rights.

Unger: Let me interrupt to focus on one thing. So it’s the character of this discussion. I don’t want it to suggest an easy voluntarism on my point. It’s not as if I believed that the enunciation of a doctrine like the one I have outlined here would in and of itself somehow transform the world. Of course not, that’d be crazy. I’m simply focusing on one element of our situation, it’s the idea element. And in particular I’m focusing on what is least represented in practical politics and practical policy, which is the vision of the direction, not the initial steps. So the initial steps are what we do in a national-political debate. I’m focusing on the trajectory, on the direction. And the reason is that contrary to what supposedly practical believe we’re all at the mercy of the available ideas. So ideas don’t change the world all by themselves but without ideas it’s impossible to change the world.

And people are at the mercy of the ideas that are available to them. Let's take the idea of the United States, Franklin Roosevelt is a very interesting example because Roosevelt was genuinely an boldly experimentalist. And he wanted to try everything out, but the ideas he actually tried in the early and most experimentalist stage of the New Deal were very narrow – they were essentially corporatist ideas focused not on economic empowerment or democratization but on economic stability. And they were very similar to the economic ideas implemented by Hitler in the early years of the Nazi regime. Now why did Roosevelt try out these narrow ideas similar to the ideas of the Fascist regimes in Europe? Because those were the only ideas offered to him! And so it's not enough to want to shake things up if you don't know how, so that's the situation in the world. And it's very common among the progressives to be appearing to conceal for tactical reasons a plan that they in fact don't have – you can't have a plan if you don't articulate it and debate it. So they don't have a plan, what is their plan? – their plan is the humanization of the project of their adversaries, that's their plan. They have no plan. And so everything that I'm doing here today, is just focused on that narrow, but to my mind immensely important element. We can't even begin to redirect ourselves if we're not able to imagine another route, that's all I'm focusing on. I'm not thinking that by imagining the other route we somehow assure ourselves that we advance along it, but we can't even begin to advance if we can't imagine it. And that seems to me, of all the constraints that exist in the world, the most striking one. The poverty of these ideas about the alternatives, the dictatorship of no alternatives. *The dictatorship of no alternatives can only be overthrown in the realm of ideas*, it can't be overthrown any other way.

Discussant: But if I could just add a word to that. If you think about the current election in France and say how many people have actually proposed something new? Some new plan, some new suggestion of the way the economy should work – and I think probably, this may express my prejudices, there's probably only one. Only poor old [some name] put on the table some plan which was a bit different from what we did in the past. And in the end what did we come down to? We came down to a battle between one person who says 'I'm here to defend those people against that against that' with no plan, and the other persons saying 'no, no you are just a dreadful person I want to keep things running the way things are'. So we are exactly at that state here, no new ideas at the table.

Unger: One idea is that the hegemonic idea in the North Atlantic world which is the flexibilization of social democracy. The North Atlantic synthesis and I think that North Atlantic democracy should get rid of that idea, it's no good.

Discussant: I'm interested again in the adoption of inclusive vanguardism. You said it before if it was to be a top down kind of big organization OECD World Bank kind of implementation we should have something very sad like an Asimov Foundation you said that institutional convergence, it would be absolutely horrible. And you do need those national initiatives. And I'm wondering as an OECD staff how we seed, the only link between the city and the policy and the vision is the politics. And you said that we need a civil society, I see that there's a missing link here into how to translate vision beyond just the political message because otherwise you are stuck in the institutional arrangement that already exist. And I don't see how to get out of it. You mentioned for the school that

there are existing fragmented initiatives, and how to bring back the initiatives beyond political leadership.

Unger: Just to say something practical. So the main terrain for the development of alternatives continues to be the nation-state. As I said in our argument about globalization to have a different globalization there have to be strong projects at the national level that contradict the present direction of globalization. So the same situation exists in the European Union; the dominant principle of the European Union – under its present course under the government of the technocratic centrists who control its fate – is that the rules that's shaping the forms of economic and social organization are centralized in the government of the union, and the rules defining the educational and social endowments of the citizens are delegated to the national and subnational authorities. It should be the opposite: the vocation of the union is to ensure the endowment and the equipment of all of its citizens, but then to guarantee the greatest latitude for institutional divergence and experiment. But how could that happen in Europe? That could only happen if the southern and eastern European countries in alliance with the dissident forces within Germany and France forced a redirection of the union. That's the only way in which it could happen. And instead of that what happens on the whole is that the southern and eastern European powers simply complain that their allowance is too small. So instead of having a strong project for themselves and deciding 'should we continue to live in the house of our parents or not given our project in the world' they want to argue with their parents about the size of their allowance. So this is the unacceptable situation, and the only solution to this situation is taking yourself seriously and having a strong project. And then the rest follows from that. So that's what has to come, that's the most important thing.

If you ask me the arrow question about these organizations like the OECD my impression is the following. Let's have a minimalist program for them, no radical change – I'd be happy with a modest change and I'll say what it is. So suppose you have this vision that one of their tasks is to develop common standards, minimal benchmarks and standards accepted by all the member-countries. The second task could be to enlarge repertory of institutional alternatives. So there's no necessary contradiction between the idea of common standards and the devotion to the development of institutional alternatives. There's no reason why the program of common standards has to be married to the doctrine of institutional convergence. So if there could be a contest over that, and the idea of institutional convergence rejected and replaced by an exploration of experimentalist divergence in the realm of institutions, that would already represent a great advance, and render these organizations less dangerous than they now are.

Discussant: First I'd like to say that I think we're being too hard on Macron. I think if you look within that package you can see a kind of recognition of this inclusive vanguardism issue, not in those words, but I think you can see it. So I wanted to come back to this issue of institutional structure, the vertical relationship between states and firms and to look at that from the experience of China. And I think there's another way at what China's done, and I would say that whereas for a long time people have said that's state capitalism, I think that's a wrong way of understanding the Chinese model, it's

really kind of a state venture capitalism that's deriving the Chinese economy. Let's start in 1996 the China development bank has existed for a couple of years but it was going bankrupt, they hadn't had anything to do – in 1996 it invented this instrument called the local governance financing vehicle and it was invented to deal with one case – the city of Wuhan who wanted to start a car plant up. They invented this off-balance sheet model that escaped the central government's policy on both lending to cities and tax by cities. That vehicle has been replicated and replicated and finally funded the urbanization process in China. And it was not a government planned vehicle, but the china development bank ran with that and they did finance urbanization with all it's weaknesses and achievements. Now China has got another instrument which is a bit the same called a government guidance fund which it gives to various industries and so forth and it uses to help industries move towards advanced practice. So there is a national project in China, as there is a Trump project for the US, made in India ... , so there are these national projects emerging with state funding. And it does raise issues from globalization, it raises issues for the WTO and so we have a big now debate on globalization – what is the model, how do you accommodate different systems. So I would end up just agreeing with your take on where the free trade project where has to go – how do these different systems and national project coexist. And that is the China vs. Trump's America issue which hasn't been fundamentally resolved and probably won't be. Looking at that Chinese experience I would say that it is a piecemeal step-by-step way forward, and that inclusive vanguardism, I see the Chinese experience in that light.

Unger: I don't disagree with you but I remain convinced that the constraints of both thought and politics are significant obstacles to the development of a strong alternative project in China. So there is this experimentalism, this constrained experimentalism that you described. But it's conducted in the shadow of mental colonialism and political despotism. And under those constraints it must be very limited. Micro-experimentalism with state venture capitalism it's something, but it's not good enough. And each of our countries, speaking about the BRICs, has a version of the same problem. Each of them has an inadequate political life, although two of the four are democracies, and each of them is bent under the burden of mental colonialism, and we have to free ourselves from this.

## **8. Cultural Conditions for the Satisfaction of Requirements**

Unger: Now we come to the last step of the discussion I will be brief. So before the break I addressed the cognitive-educational, social-moral, and legal-institutional requirements of an inclusive vanguardism, and I now want to say a word about the broader cultural and political background to the fulfillment of those requirements.

Now it's not as if I thought this background was an antecedent condition. I think that the attempt to develop an inclusive vanguardism piecemeal even in the initial steps would itself contribute to the fulfillment of those background conditions that I'm now going to discuss. The cultural background condition is the diffusion of a radical experimentalist impulse in all branches of social life. And the political conditions is the creation of a

high-energy democracy. Now let me a brief word about the first and a somewhat longer word about the second. The experimentalist impulse – let me state it first in its most abstract form. You can imagine in the routinized social life there are always two categories of activities. There are the ordinary moves that we make within a framework of assumptions and arrangements that we take for granted, and there are the extraordinary moves by which from time to time and typically under the provocation of stress or crisis, we challenge and change some piece of the framework. Now what does it mean to be an experimentalist? It means is that we narrow the distance between these two classes of moves. So that the activity of challenging and changing pieces of the framework arises more continuously in the ordinary business of day-to-day life. The exceptional moves by which we challenge and change the framework are an extension of the ordinary moves that we make in the framework. Let me give an example far removed from economics or politics – the practice of science. So you know the distinction made by historians of science such as Thomas Kuhn between routine science and revolutionary science. Revolutionary science involved the change of theoretical paradigms, a change impossible within the confines of post-marginalist economics, and routine science is analytic work (scientific work) under a paradigm. Now a superior form of science, a superior scientific practice, would be one in which the routine practice of science acquired some of the attributes of revolutionary science. The change of paradigms would not have to be practiced rarely by a few geniuses, but it would be a common attribute of scientific work. That would be an evolution of science in the direction of the radicalization of experimentalism. So you know the philosopher of science Karl Popper said ‘the aim in science is to make mistakes as quickly as possible’, and now we would have a larger conception of these mistakes and of the correction of science involving the assumptions and the methods, and we wouldn’t think that only a genius could be involved in the change of the paradigms.

So the cultural background of inclusive vanguardism is a background in which the impulse and the ability to experiment piecemeal with the framework is widely diffused in the population. And in which there are practical opportunities in the course of ordinary life to practice this transformation. Now once again how could that happen? So as with the disposition to cooperate, and with the accumulation of social capital, I want to argue that our ability to experiment – to challenge and change the framework – is not simply a brute fact that we are unable to reshape by collective action, it is something that we can act upon. And I just give you some examples from the previous discussion of how we can act on it. So one example is education, and not the third attribute of education the one I focused on before: cooperation, but the fourth attribute the dialectic approach to receiving a body of knowledge. If every young person is taught dialectically every subject by contrasting points of view we create a population that from the outset is more disposed to defy and to experiment. A second example of the way in which we can influence the dissemination and radicalization of the experimentalist impulse in society is by making it easier for the ordinary human being, the ordinary man or woman, to change careers, to change directions. Not just lifelong education but support by the state for a change of trajectories in the course of a career. So now this is a deep moral idea, this is not simply a technocratic initiative. As a human being grows older a carcass of routine begins to form around him, the self is rigidified, the rigid form of the self is character, and the Greeks

said character is destiny. The combination of rigidified form of the self with the circumstance or trajectory to which we resign ourselves is a kind of mummy that begins to form us, and within this mummy we die. And a higher objective of an experimentalist democracy is that allow each of us to die only once rather than to die bit by bit -- to destroy the mummy. And to destroy the mummy we have to shake ourselves up, to change direction of life, and to be supported in this activity of self-reconstruction. So then a third example of how it is we can promote this is by guaranteeing to every individual a universal minimum package of basic endowments and resources. So that we can be more unafraid and capable to create a storm in the world. The parent says to the child 'I love you unconditionally now go out in the world and raise a storm' that's the vocation of this social inheritance or this package of universal endowments. It is to rescue us from fear as well as to make us capable. By a combination of these initiatives we can contribute to the diffusion in culture of a radical experimentalist impulse. And the cultural of radical experimentalism, including experimentalism of our own selves, is one of the two fundamental background conditions of an inclusive vanguardism.

## **9. Political Conditions for the Satisfaction of Requirements**

The other major background condition has to do with the organization of democratic politics. Democracy is not simply the government of the majority qualified by the rights of the minorities. Democracy is the collective discovery of the new. All the democracies that exist in the world are flawed, low-energy democracies. All of them inhibit the political transformation of society, the mastery of the structure of the established of society by democratic politics. All of them perpetuate the rule of the living by the dead, and all of them make change depend on crisis. The rule of these low-energy democracies is 'no trauma, no transformation'. Trauma in one of two forms: economic ruin and military conflict. This has been in particular the rhythm of European life in the 20<sup>th</sup> century. In war the Europeans wake up and there's structural change. In peace they go to sleep again and drown their sorrows in consumption. And we should want to have a form of political life in which change ceases to depend on crisis. So the three criteria for the creation of a high-energy democracy are: first that it make it possible for democracy to master the structure of society in fact, not just through episodic interventions in one or another fragment of social life. Second that it overthrow the rule of the living by the dead. And third that it weaken the dependence of change on crisis. So all of the institutional innovations that I discussed with respect to the advancement of inclusive vanguardism depend as a background condition and this creation of a high-energy democracy.

What then is the institutional content of a high-energy democracy? It requires institutional innovation in at least three areas of the organization of democratic politics. The first area has to do with the level of organized popular engagement in civic life. A high-energy democracy must be a high-temperature democracy. By a high temperature democracy I mean a democracy based on a high level of political mobilization. So the premise of conservative political thought is that politics must either be cold and institutional or hot and anti-institutional or extra-institutional. The opposing premise is that politics can be both institutional and hot. High temperature with a high-level of engagement. Depending on a series of combined initiatives. First initiatives regarding the

relation between politics and money, the financing of political activity. Second, initiatives regarding the access of political parties and organized social movements to the means of mass communication, gratuitous access to the means of mass communication as the space of public debate. And third the design of the electoral regimes.

The second domain of institutional innovation required for a high energy democracy, not with the temperature of politics but with its pace. A high energy democracy is a democracy in which impasse is rapidly resolved. We're in France so let's take the example of the constitutional arrangements of the fifth republic. There are two times, there is a fast time in which the president coincides with the parliamentary majority, and there's a slow time in which there's a divergence of the parliamentary majority and the president. For a hastening of the pace of politics there can be no slow time, there can only be a fast time. So whenever there's an impasse, the impasse has to be resolved rapidly. Either through early elections that either of the political branches can call so long as the election is always bilateral for both branches; or by a comprehensive programmatic or plebiscite referendum. Another example of this would be in the American presidential system in which the constitutional architecture is based on two principles: there's a liberal principle of the fragmentation of power, and there's a conservative principle of the slowing down of politics – Madison's scheme of checks and balances. And the americans think – mistakenly – that there's a natural relation between the liberal principle and the conservative one. But there is no such relation. They are related not by necessity but by intention and design. So we would want there to be a reaffirmation of the liberal principle but a repudiation of the conservative one – if there's an impasse the impasse is resolved immediately and the pace of politics is accelerated.

The third domain of institutional innovation has to do with the relation between the center and the periphery if in federal systems or in unitary states. So the basic idea is that the central government acquires strong powers of initiative but at the same time we guarantee to different parts of the country, even in an unitary state, the ability to secede from the general solutions and to create counter-models of the national future. Even in an unitary state like France or the UK strong central initiative can be combined with radical devolution. And then we can create a dialectic of alternative national paths. So there you have a simple outline by what I mean by the institutional content of a high-energy democracy. The political background to the economic project of an inclusive vanguardism.

## **10. Relation of Programmatic Argument to the Current Political Setting**

Now I've finished the outline of my argument. Now I'd like to look back and make a final remark. From my standpoint now the central theme of the entire discussion is the imagination. So first the knowledge economy represents in economic life the advance of the imagination. The central theme in the history of the economy is the relentless triumph of the imagination. The most advanced practice of production in each historical epoch is the practice that most completely expresses the attributes of the imaginative side of the mind -- superior to everything else. And the fundamental reason to desire the establishment of an inclusive vanguardism is that it represents the most complete triumph

of the imagination. But to secure this advance we need in our ways of thinking a way of representing structural discontinuity and structural alternatives that does justice to the imagination. Structural vision is the application of the imagination to social life. Imagination, imagination to the rescue – that's the theme of my argument today.

Discussant: Certainly very interesting. I want to come back a little bit to the discussion before the break, about the OECD and how these types of ideas can be debated here. On the one side indeed we are an institution that sets some agreed standards between countries, on the other hand we are an institution where diversity is discussed, and probably the only international organization where countries debate their different ways of doing things in a table where they are peers. So I guess these organizations can help in the process of sharing diversity in some ways, and I would like to elaborate a little bit on the issue of education, because probably in the field of education is precisely one of the ways in which we have found out that this culture of engagement and decentralization, giving the teacher greater autonomy to be his own in the room, that is something that has revealed that decentralization actually works. But bringing this discussion back to development, in developing countries like Brazil or like Mexico it's very difficult these kind of model because we are under the restriction we have increased a lot the education capacity, the quality depends on the teacher. Can take a lot of years to get each school to the actually quality to what a Finnish school might have. Building also on your arguments I guess technology and the 21<sup>st</sup> century can help us solve off these challenges that probably have since the 60s or 70s, we have MOOC courses, and we have youtube and other elements that can help a teacher or student educate themselves. Just trying to bring a reflection of how this issue of education and way the OECD is learning about education can be applicable to the model you were saying.

Unger: I'm going to make two sets of remarks. Both of them are controversial though maybe the second set is more controversial than the first. First I want to say something about education and Brazil as an example, and then I want to say something about the OECD. First about Brazil and education: the most salient attribute of our country is its vitality. A vast disorganized, anarchic, and almost blind vitality. And the tragedy of our national situation has been to deny to the majority of people the instruments and opportunities with which to transform this vitality into constructive action. So now we have in the country a second middle class, a dark skinned middle class, of millions of people who are coming from below – very different from the traditional middle class with its orientation to European culture and the public employment. And so these are millions of people who are struggling to create and maintain small business often holding several jobs, studying at night, half of them are evangelicals. And behind them is an even larger group of people who are still poor but who have assimilated this culture of self-help and initiative. So the fundamental revolution in our natural would be to innovate in the institutions so that this mass of people could follow the example of this petty-bourgeoisie. For that we need institutional innovation – innovation in the economic arrangements. And we need educational innovations. Our education system is like a war against ourselves. We don't have wars in the 20<sup>th</sup> century, but we invented a war against ourselves. The characteristic of Brazilian culture is this anarchic quality, this spontaneity. And we have imposed on this attribute a grid of a dogmatic and encyclopedic educational

system, as if the objective of the Brazilian schools were to transform 21st century Brazilian children into 19<sup>th</sup> century French children – an absurdity. So the raw material for this project already exists in economic life and in the attitude to education. What's missing is a project that would take advantage of this material. So I don't see it as in any sense utopian or voluntaristic – I see it as a recognition of reality. And it's the dominant project has been a denial of our reality, so that's with respect to education.

And now I want to say a word about the OECD, and once again I want to give you the example of Brazil. So as you know our recent development strategy in Brazil has been a strategy with two bases – the popularization of consumption and the production and export of communities, with deindustrialization of our economy. And this worked for a while during the super-boom of commodity prices, when the commodity prices collapsed the government gave an artificial afterlife to this regime by appealing to vulgar Keynesianism, and it worked for a while and when it stopped working it made things worse through the disorganization of public finance. The government was very unpopular with the economic collapse, and the fiscal maneuvers that it adopted for the vulgar Keynesianism then created the constitutional excuse to remove it from power. Then a group of people came to power with no popular mandate and no project for the country other than the doctrine of financial confidence – so let's kneel at the altar of the financial markets and let's adopt all of their orthodoxy and genuflect to their ideas in the hope that this will produce a shower of investments that will drive the country forward. There's absolutely no prospect that will work – it hasn't worked and it won't work. And as part of this maneuver of showing that their well-behaved among the many dozens of initiatives that they are taking one of them is to manifest an interest in full membership in the OECD. Now it's likely than in our next national elections this current of opinion will be defeated and these people will fall from power – they and their allies – and there's a very good chance that a center left government will come to power in Brazil. And it will then have the task of doing something much harder than implementing our earlier project of development which is to deal with the economy on the supply side not just on the demand side. There's a fundamental asymmetry between democratizing the economy on the demand side and democratizing it on the supply side. The democratization of the economy on the demand side can be done just with money, the democratization of the economy on the supply side requires institutional innovation and ideas, and therefore also controversy and conflict. Now the forces that would then come to power very likely have in the past been opposed to full membership of Brazil in the OECD. They've been opposed for two reasons. One reason is the superficial reason and the other reason is the deeper reason. The superficial reason is they would see equal membership in the OECD as a negative signal to their allies in the developing world, and especially to the other BRIC countries, as a kind of breaking of ranks, which is not in our national interest. We have a great margin of maneuver in the world, we have no enemies, we are far removed from Russia, China, and India they are locked in two or three thousand years of complications from which we are entirely free. And therefore we have a large area of potential action and it's not in our interest to distance ourselves from them. So that's the first reason to objection to full membership. The second reason is the belief that organizations like the OECD are associated with the doctrine of institutional convergence, not just with the development of universal common standards, but the idea

of convergence to a single repertory of best institutions and practices. And we oppose that idea. We want institutional divergence, so that's the second reason.

So I'm describing the situation from the perspective of Brazil. But then there's the perspective of the OECD. So that's why I raised the question about the compatibility of a commitment to common standards with an interest in experimentalist divergence, so for it to be interesting to Brazil to join the OECD in full membership, it would have to be interesting for the OECD to transform itself. And to dissociate the commitment to develop common standards from the commitment to institutional convergence. And if Brazil were interested in joining on the basis of a self-transformation of the OECD, the other major developing countries might also be interested. So this is I think a momentous question for us and for you. And that's in a way the connection between theme of our debate and the question of your institutional future.

Discussant: On that very question then how would you regard the G20, because the G20 is an acknowledgment of political diversity and economic diversity. What's your thinking about that?

Unger: My understanding is this, tell me if I'm mistaken. The G20, we see it as a club of rich or powerful countries that have common interests or problems to solve together, but don't take very seriously the doctrine of institutional convergence. So the home of the doctrine of institutional convergence are the Bretton Woods organizations. And there's a historically a hard version, the IMF and a soft version, the World Bank. So that's the doctrine of institutional convergence, I don't know on which side the hard or the soft you people are, but you seem somehow to be associated with the doctrine of institutional convergence.

Discussant: I think we're diverging from the doctrine of institutional convergence because the OECD de facto globalizes that's where it's going. I think it is going toward the experimental, we're learning a tremendous amount. And we're different from the IMF and the World Bank in that respect.

Unger: But this is a fundamental question and I raise it simply because it directly related to the debate about the Brazilian accession, and the debate about the Brazilian accession is in turn a proxy for these debates about major developing countries with respect to the OECD. So if I didn't think that there were a hope of redirection and self-transformation I wouldn't be here.

Discussant: To take this issue of institutional innovation from a lower end, a lot of the OECD work on regional development has tended to suggest that the conditions you put forward for an inclusive form of vanguardism are easier to establish at the local level because the type of integrated approach – bringing in economic developments but also skills and education, employment policies – are easier to put together into coherent packages at the local level because you've a higher level of institutional trust at the local level and it's also easier to develop participatory forms of democracy. And thirdly even for the question of technological transfers and diffusion of innovation within kind of

regional economies bringing in anchor institutions like universities to bring together the private sector and civil societies through life long education it's actually easier to transfer frontier level technologies, or at least help upgrade SME's and smaller, lagging firms. So the question I have is there a place for this kind of local level ...

Unger: Absolutely, absolutely. But it depends in the level of transformative ambition. For modest, limited transformative ambition the local level of ambition may suffice. For major level of ambition, like the level we've explored here today, there's no substitute for the power of the state. The state establishes law; law shapes, the institutional arrangements, the arrangements of politics and the economy. That can't be done through local government. We can begin exemplary action, but the exemplary action if it begins at the local level then has to continue in a struggle for the power and the use of the power of the state. And the power of the state then has to be allied to the programmatic imagination. So I thank you all for today's conversation, which I found for me immensely useful, thank you very much.

Moderator: Alan Kermin who is no longer with us he rather ungenerously said that engaging with you intellectually was like waltzing with an articulate cement mixer. And in the same article in the Guardian other people call you a preposterous Romantic, but your defenders say maybe some day you might make possible a new national romance. And I think you've raised a lot of really important issues for us at the OECD and a lot of questions about the OECD itself, and I think we often stand behind the mantra of better polices for better lives and the house of good practices, but I think you've really highlighted the importance of ideas and the imagination which should underline a lot of that work. And so I'd really like to thank you for dragging us onto that terrain of ideas. And you've given us a lot to think about in terms of the process of globalization, rather fundamental ideas about how economies are organized, about democratic politics, and your agenda for inclusive vanguardism is something we've started a discussion on, but we should explore that much further. And I think for you one of the ideas to the new approaches to economics challenges initiative is to have greater pluralism and the idea that perhaps the economy is too important to be left to the economists. We heard a lot from you and you represent almost all disciplines in one person, but we heard a lot about Science, History, Law, Philosophy and I think that sort of dimension is what this program is about, those dimensions, and to really challenge ourselves and to think about radical experimentation and institutional innovation that we need. So I'd like to thank you and we'll continue the discussion, and I'd like to thank everyone who was able to join us today and our members.