Free Trade Reimagined

The World Division of Labor
and the Method of Economics

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This book stands on its own as an argument about the international division of labor and the method of economics. The reader should nevertheless know that the argument forms part of a larger intellectual program. The program rebels against the tendencies now prevailing in the social sciences and humanities. It seeks alternatives to the arrangements and the assumptions of contemporary societies. It tries to give new meaning to the revolutionary ideas of human liberation and empowerment that, for the last few centuries, have aroused the whole world. It turns thought against fate.

False Necessity (Verso, 2001), Social Theory: Its Situation and Its Task (Verso, 2004), and Plasticity into Power (Verso, 2004) carry this program forward as a social theory. What Should Legal Analysis Become? (Verso, 1996) advances it in the discipline that, together with political economy, provides the most promising tools with which to reimagine the organization of social life. Democracy Realized: The Progressive Alternative (Verso, 1998) and What Should the Left Propose? (Verso, 2005) develop it as an institutional proposal. Passion (Free Press, 1984) and The Self Awakened: Pragmatism Unbound (Harvard University Press, 2007) deepen and generalize it as a philosophical conception.*

*For further texts from this intellectual program, see www.robertounger.net.
Familiar Problems, Disturbing Solutions

I begin by enumerating some familiar problems in the doctrine of free trade conducted on the basis of specialized lines of production within an international division of labor, particularly when such national specializations are motivated by comparative advantage.* These problems—and the solutions that have been proposed for

*A country is said to enjoy an absolute advantage over another country in the production of a good if it can produce the good more efficiently, that is, at lower cost, than the other country. It is said to enjoy a comparative advantage over another country in the production of a good if it can produce that good at lower opportunity cost than the other country, that is, with relatively less opportunity to commit the resources it devotes to the production of that good to a more efficient use. A country that fails to have an absolute advantage in the production of a good may nevertheless possess a comparative advantage in it. Comparative advantage vastly expands the basis for international specialization of production. For this reason, and because it is both counterintuitive in its claims and far-reaching in its implications, it has been, ever since its formulation by David Ricardo almost two hundred years ago, the cornerstone of thinking about international trade. The next chapter deals at length with the doctrine of comparative advantage. The distinction between absolute and comparative advantage is largely irrelevant to the puzzles listed immediately below, although comparative rather than absolute advantage would ordinarily be regarded as the main field for their application. Thus, I use in the following list the simple term “advantage.”
them—have not been thought to discredit either the central insight of the doctrine or its programmatic consequence, the beneficence of free trade. Indeed, they do not. They nevertheless pose a challenge that contemporary thinking about trade and free trade has yet adequately to meet. How, why, and with what result the force of this challenge has continued to be evaded is a matter requiring further reflection. Consider a brief, nonexhaustive list of these long-recognized objections and complications.

1. The assumption of a uniquely efficient assignment of productive specializations among countries in an international division of labor: who is to produce what. Even if we assume that comparative advantage is a given rather than a construction (see the next proposition on this list), it is more realistic to suppose that there are alternative sets of efficient assignments of advantage among economies, just as there are multiple ways any economy can be in equilibrium, each with different consequences for national welfare and growth. The less that advantage is determined by nature, the greater is likely to be the significance of the problem of multiple efficient solutions to the allocation of specialized national roles in world trade. Each such allocation will have distinct results for both welfare and growth.

2. The assumption that advantage is given rather than made. This assumption becomes less tenable as we move away from natural advantage. The most tangible example of made advantage is the development of economies of scale and scope, as well as of concentrations of skill, in a line of business in which a country may have had no natural advantage. However, once the principle is admitted that advantage can be deliberately created by governmental initiative and collective action, it applies to every reason for a country’s practical success or failure, including its institutions and practices, social and political as well as economic. Trade theory has had difficulty coming to terms with how the construction of advantage occurs, for the same reason that economics in general has had trouble dealing with how the institutional and psychological assumptions of maximizing behavior in a market economy are established and modified.

3. The assumption that it is tenable to foreclose the two previous sets of concerns by saying that either advantage, when not given by nature, will be generated by market activity itself or that it will be produced by governmental intervention, with all its attendant risks (playing favorites, riding hobbyhorses). In fact, advantage has always been shaped by a combination of private enterprise and public action. As soon as we acknowledge this fact, however, we realize that there is no closed set of possible institutional forms of such a combination. Indeed, there is no single and uncontroversial institutional achievement of worldwide free trade.

The concept of a market economy is institutionally indeterminate. That is to say, it is capable of being realized in different legal and institutional directions, each with dramatic consequences for every aspect of social life, including the class structure of society and the distribution of wealth and power. The idea of a universal regime of free trade is institutionally indeterminate in the same sense and for the same reasons. Which of its institutional realizations prevails has immense importance for the future of humanity. These debates cannot be captured within the categories of longstanding controversies about free trade and protection.

4. The assumption that so long as we correct market imperfections (according to the formula of first, fix them; if not, compensate for them by a domestic initiative; only as a final resort, impose a restraint on trade), we can move from the static efficiency of free trade to its intertemporal efficiency and from its intertemporal efficiency to its beneficial effect on economic growth. In fact, the first link holds only if intertemporal efficiency is defined so narrowly as to deprive it of theoretical or practical interest, and the second link (as the later observations about historical experience confirm) is nonexistent.

Moreover, the language of market imperfections, as applied to the “infant industry” and “monopoly power in trade” arguments for protection, trivializes the central point: not how to reestablish the market or what to do when the market fails, but what kind of market—on the basis of what institutions and practices—to establish in the first place. We cannot reach this point by focusing solely on advantage, whether given or made; on the contrary, the
analysis of advantage presupposes that we have already disposed of this issue to our satisfaction. We have not.

5. The assumption that a country’s trade policy should not be influenced by the willingness of its trading partners to abolish or to diminish restraints on trade. The traditional view (against which strategic trade theory staged a limited revolt) has been that although real-world departures from this assumption may justify circumstantial resort to reciprocity and retaliation, they do not compromise the case for a trade regime that is as universal and as free as possible.

6. If, however, the whole system of world trade and all the institutions and practices by which it is realized in any given historical circumstance are both particular and contingent, if they are incapable of being inferred by pure analysis from the idea of free trade, if they are the products of shifting conflicts of interest and vision on the world stage, if they therefore deeply bear the imprint of everyone’s strategies, and if the strategies of a few preponderant economic powers are likely to be decisive in determining their content, then the assumption that a country’s trade policy should be independent of the trade concessions it wins from the countries with which it trades makes little sense. Strategic trade theory failed to go far enough in resisting it.

A puzzle will occur to any reader of this book who has studied the history of debates about free trade and protection. Everything in this short list of ambiguities and flaws in the traditional doctrine of free trade based on comparative or absolute advantage is well known. The interest of the list lies in combining the ideas that constitute the list, in deepening and generalizing them, and in grasping their unrecognized implications. The student of the controversy about free trade, however, will object that the history of this debate has been largely preoccupied with beliefs of an entirely different order. To these beliefs the propositions in the short list bear no self-evident relation.

Traditional objections to free trade can be broadly placed into two categories. In one category are the arguments concerning the special instances in which restraints on trade may be justified because of the failure to solve what today we would describe as a collective-action problem in the development of a regime of universal free trade. If markets are not universally open, it may not, under certain conditions, be in the interest of every trading party to act as if they were; that is, it may not be in its interest to offer its trading partners a unilateral and unreciprocated abolition of restraints on trade. This claim was the nub of Robert Torrens’s “terms of trade” argument.

It is an argument that has always invited a twofold response from the defenders of free trade as it is conventionally understood. One response emphasizes how special are the conditions under which restraint may be more advantageous than unreciprocated protection. The other response insists that the actual practice of protection is likely to squander its theoretical benefits by lending itself to the service of powerful interests and fashionable dogmas.

In a second category are the arguments dealing with the perverse distributive effects of free trade in a particular situation, including both distribution among sectors of the economy and distribution among classes of society. In this second category fall Frank Graham’s “increasing returns argument” (according to which if manufacturing is subject to increasing returns to scale and agriculture to decreasing returns to scale, a country importing manufactured goods and specializing in agriculture may have reason to impose a tariff on manufactures in order to encourage a shift to the higher-productivity sector, with its increasing returns to scale), Mihail Manolescu’s related “wage differential argument” (according to which developing countries might be justified in imposing restraints on trade to encourage the movement of labor from low-wage, low-productivity agriculture to high-wage, high-productivity industry), James Bristock Bridgen’s so-called Australian argument (according to which restraints on trade might be justified for countries whose factor endowments were such that, although facing diminishing returns in agriculture, they continued to specialize in the world economy as agricultural exporters), and the Stolper-Samuelson theorem (according to which an import tariff may raise the real income of labor and reduce the real
income of capital when the import-substituting sector produces a labor-intensive good).

The common element in these arguments of the second category is the claim that, under the special conditions each of them stipulates, free trade may produce a redistribution of gains among sectors of production or among classes of society that is economically inconvenient as well as socially undesirable because it inhibits a national economy from climbing the ladder of productivity more quickly.

Both sets of arguments address circumstances in which, for particular reasons, the case for free trade may fail to persuade. They provide no basis for resisting trade beyond those circumstances or for revising our view of its benefits. They thus reinforce John Stuart Mill’s contention that “the protectionist doctrine finds support in some particular cases”—and only in such cases.

The result is to provoke from the defenders of the doctrine of free trade a response that has succeeded in robbing these objections from the competitive assumptions or the distributive effects of free trade of much of their theoretical and practical force. The response comes in two parts. The first part is to interpret each of the arguments as the description of a low-productivity trap. The way out of the trap, the votaries of free trade say, is not to restrict openness in the global market; it is to radicalize openness—competition, flexibility, and capability through education, training, and benchmarking—in the domestic market. The second part is to suggest that so long as market failure persists, the short-term antidote to its perverse distributive consequences should be a corrective or compensatory transfer of resources. Restraint on trade should be a last resort; it is likely to be the most costly solution, and its costs are likely to be magnified by the foothold it provides for the ravages of favoritism and dogmatism.

So it is that the two familiar sets of objections to the doctrine of free trade conducted on the basis of comparative advantage can be quickly and effectively circumscribed. The doctrine is general; the objections are particular. Because they are particular, they invite particular responses that leave the essentials of the doctrine untouched.

Now return to the earlier summary list of analytical conundrums. They are not particular; they are general. They reveal difficulties or ambiguities in the conception itself, not just in its application to specific circumstances. They suggest that free trade—the international division of labor, the global trading regime—might have different meanings and be organized in different ways, with different consequences. They imply that instead of choosing more or less free trade, we might think of free trade in a different manner and organize it accordingly.

The problems on the short list therefore enjoy a conceptual priority to the two families of practical arguments—about collective action and about distribution—that have occupied so much of the historical controversy about free trade and protection. Until we have solved these problems, we cannot know with assurance what to make of those well-known arguments. Is there a way of conceiving, developing, and organizing an open world economy that prevents countries from falling into low-productivity traps like those described by Graham, Manoilescu, and Bridgen? Can the problem of collective action in the construction of such an open world economy be solved in a way that enables countries to diverge, even increasingly, in their forms of economic organization as well as in their lines of business?

A central theme runs through the preceding discussion of the conundrums latent in the conception of free trade and of the matters left unresolved by the historical debates about protectionism. The theme is the need for a contest among ways of imagining and of organizing worldwide free trade. The significance of the conundrums is to suggest that there is room to rethink international free trade and therefore also room to reorganize it. The meaning of the history of the debates is that until we determine what our intellectual and practical alternatives are in that larger struggle, we cannot bring those debates to a close, or even assign them a definitive meaning.

There is no single uncontroversial realization of the idea of a universal regime of free trade. To take a simple example, will it be free trade of goods with mobility of labor or free trade of goods
without mobility of labor? So long as there are different possible futures, including different possible futures of free trade itself, there will be different strategies among its participants, committed by reason of interest and vision to one such future against others. Strategizing is not what takes place when free trade ends. A regime of free trade is not a perpetual-motion machine that, once established, absolves us of further institutional choices and strategic conflicts.

The common and combined effect of these problems is to require the qualification and the expansion of traditional free trade doctrine. The movement to save the doctrine from the objections will not be persuasive and successful unless it goes in a particular direction. This direction emphasizes the multiplicity of possible successful assignments of productive specializations among countries. It also underlines the role of governments and firms in making new comparative advantage. Multiplicity rather than singularity of opportunity and response; advantage and capability as achieved rather than as given, as goals rather than as guides—these are the characteristic themes of plausible answers to those objections.

What emerges from such answers is a way of responding to the five problems I have just enumerated that disposes of them by doing just the opposite of what has been the main tendency of economic theorizing for the last hundred and twenty years. The response disposes of these problems only by undermining the idea of the market (in this case the world market realized through universal trade) as a perpetual-motion machine that can define its own presuppositions and pick out uniquely efficient solutions to the problems of resource allocation. It disposes of them only by weakening the contrast between the effort to find the most efficient (or even Pareto-improving, that is to say better for everyone) solution within the given framework and then by reinventing the framework. And it therefore disposes of them only by connecting economics and politics rather than by keeping them carefully and anxiously apart.

Consider, for example, the substitution of the idea of constructed comparative advantage for the idea of established comparative advantage. Once we acknowledge that comparative advantage can be, and always has been, shaped by governmental initiative and collective action as well as by private enterprise, we have to ask which features of a trading system may either encourage or inhibit such restless tilting of the scales. Once we combine the idea of constructed comparative advantage with the idea of multiple answers to the question of who may be the most efficient producer of what in the world economy, we begin to tear down the wall between the debate about how to understand and how to organize universal free trade and the struggle over the content of the development strategies different countries should embrace. And once we admit that the institutional indeterminacy of the market concept—our inability to infer a particular legal and institutional organization of the market from the abstract idea of a market—is aggravated by the institutional indeterminacy of the idea of global free trade—the possibility of interpreting the legal and institutional implications of this idea in sharply divergent ways—we begin to wonder what it is that we embrace when we commit to free trade.

So each of the well-known objections I have listed yields to answers that are almost as familiar. However, the cumulative effect of these answers is to make the theoretical meaning and the practical significance of the doctrine of free trade depend on ideas about much more. My argument expands into empirical and normative controversy rather than retreating from it. In this sense, it devalues the autonomy of economic analysis rather than enhance it. It goes in a direction opposite to the direction that economic theory has on the whole taken. It uses trouble to create, through more trouble, insight.

The History of Free Trade and Protection: Subversive Lessons

There has never been a more astonishing contrast between the intellectual prestige of a social or economic doctrine and the weakness of its vindication by historical experience than the influence
enjoyed by the idea of the advantages of universal free trade, in the face of facts that seem to contradict this idea.

Any fair-minded reading of the historical record shows that there is no evidence for a consistent or general positive relation between free trade and economic growth. There is more than a little evidence for the supposition that they have often been negatively related. I do not take this evidence to justify a systematic bias toward trade protection; indeed, it is a central tenet of the argument of this essay that the terms of the traditional debate about free trade and protection are and continue to be ill-conceived. It is impossible to achieve intellectual clarity so long as we stubbornly rely on misreadings of the historical record. The facts at issue are not obscure; they do not depend on research into as yet unvisited archives or on convoluted interpretations of hermetic texts. They are as simple and straightforward as we can ever expect a set of complex historical events, over extended time, to be.

For much of the nineteenth and twentieth centuries—until the present episode of globalization began in earnest in the closing decades of the last century—the rich countries of the North Atlantic world were a stronghold of protectionism. The most notable exception was the pioneering industrial power, Great Britain. By contrast, free trade, based on established comparative advantage, prevailed, by a combination of political imposition and ideological submission, in much of the poorer rest of the world.

In continental Europe, a protectionist bias prevailed for most of the nineteenth century. It became strongest in the period from 1892 to 1914. This was the heyday of the previous episode of globalization—the one that came before the globalizing impulse of the late twentieth and the early twenty-first centuries. The most notable movement toward free trade took place in the years following the Anglo-French trade treaty of 1861. It is striking that this turn to free trade persisted during the period of the great European depression of the 1870s, an economic downturn in some respects more severe than the depression of the 1930s.

No Western country professed a more long-standing and radical devotion to protectionism than the one that was destined to become the leading economic power in the world, the United States. The sole consistent opposition to this bias came from the slaveholding South. The doctrinal formulation of the protectionist bias in Henry Carey’s “American System” predated the formulation of the ideas of Friedrich List.

The periods of moderation of protectionism—the years after the Democrat Party came to power in 1844 and after the Underwood Tariff of 1913—were brief in duration and limited in reach. It is especially interesting that the protectionist impulse strengthened rather than waned after the United States had already achieved its status as a leading industrial economy in the late nineteenth century. The emphasis of argument shifted from infant industries to wage protection and aggressive national strategy.

Some may conjecture that the United States and continental Europe would have done even better had they taken the path urged on them by the English proponents of free trade and comparative advantage and by their liberal disciples abroad. Such a counterfactual conjecture, however, would amount to sheer dogmatic fantasy; it lies beyond the reach of proof or falsification.

In most of what was later to be described as the third world, especially the countries under the outright control or the economic and political influence of the North Atlantic powers, free trade, justified by a simplified liberal and Ricardian discourse, reigned supreme. Two very clear examples of its application were to be found in some of the major countries of Latin America (especially Brazil) and the Ottoman Empire. On the whole and for most of time, these same regions of the world grew very slowly under the long domination of the free-trading doctrine.

There is no basis to infer from these facts, in which so many other circumstances intervened, a simple inverse relation between free trade and economic growth. They nevertheless cast doubt on the thesis of a positive relation of economic growth to free trade. Not only can no negative relation between economic growth and restraints on trade be established, for much of modern history it is hard even to demonstrate a negative relation between protection and an increase in trade flows. Many countries expanded their share of world trade, and the importance of their own trade
flows relative to their own GDP, during those times when they increased trade protection.

Let us stand back for a moment from the narrower controversy about free trade and protection and consider the lessons of the equivocal historical experience. These lessons will help inform a view that is consistent with the terms of that debate.

A first lesson is that the lowering of trade barriers has ordinarily followed rather than preceded the achievement of high and sustained growth. Ascendant countries have characteristically joined the trading system and then lowered their defenses, in stepwise fashion and on terms compatible with a particular strategy and vision. They have practiced, avant la lettre, active rather than passive engagement with the world economy.

A second lesson is that even before they achieved high and sustained growth the countries most resolute and successful in practicing relatively unrestricted free trade have often been small commercial entrepots. They have drawn their economic lifeblood from privileged relations to a much larger—and much more trade-protected—economy. A contemporary example is Hong Kong. A historical instance is provided by the Hanseatic free cities. Their established comparative advantage was geography, combined with created institutional arrangements and cultural predispositions that helped them make best use of their geographic setting.

A third lesson is that many countries successful in a niche—a line of specialized production within the world economy—have then failed to reinvent themselves when circumstances required them to do so. The institutions, practices, and beliefs fostering this capacity for continued reinvention turn out to be more important than any particular success or niche. A particular and elusive dialectic between protection and free trade has played an important role in sustaining these conditions of the collective capacity for self-reinvention.

A fourth lesson is that the most successful countries, regions, and networks of firms have ordinarily been those that are able to pillage the world for resources, technologies, and ideas while maintaining independent centers of decision. Such economies have managed to enhance and safeguard the ability to do things their way. The particular level of free trade and protection they practiced may often have been much less important than the way in which each of them understood and implemented free trade and protection, such as by providing for protection but with massive use of foreign capital to develop the national infrastructure (as in mid-nineteenth-century United States) or by increasing free trade but with avoidance of foreign control of major enterprises (as in mid-twentieth-century Japan, Korea, and Taiwan).

The division of the world into sovereign nation-states has proved to be one way of creating a basis for such fertile divergence. If there were a truly global economy, with borderless trade, we would have reason to find a functional substitute for what sovereign states, deploying selective free trade and selective protection, have achieved.

Contemporary experience suggests one major addition to these historical inferences. If there is a lesson to be drawn from the record of success and failure in national development in the twentieth century, it is a conclusion that may at first appear to be paradoxical. The apparent paradox comes in two parts.

The turn to the market—to a national market economy and to the world market—has indeed worked. However, it has worked best when countries and their governments and thinkers have been bold in organizing a market economy and in providing for national engagement in the world economy on their own terms, often through unfamiliar institutions or unfamiliar combinations of familiar arrangements.

What has counted in the turn to the national and world market has never been acquiescence in a dogmatic institutional formula about the proper form of a market economy. It has never been acceptance of the simple-minded promises made by the doctrine of free trade on the basis of given comparative advantage. It has been some measure of success in an effort to reconcile two commitments. One commitment has been to decentralize economic power and opportunity and to expand the scale and scope of markets. The other commitment has been actively to reshape established comparative advantage through governmental initiative and collective action as well as through private enterprise, thus preserving the
vital capacity for national defiance and divergence. So it is, for example, that China has advanced, even in the midst of unbroken despotism and mounting inequality, while Latin America, the most obedient of all contemporary regions of the world to the pseudo-orthodoxy of the market turn, has suffered a catastrophic decline in its relative position in the global economy.

The Authority of Free Trade Doctrine: Reasons Amounting to Objections

How could a conception such as the traditional teaching of free trade, compromised by such serious and numerous fallacies and contradicted by so much historical experience, enjoy such daunting intellectual authority? The answers to this question are of more than intellectual-historical interest. They allow us to understand what is at stake in the debate about free trade and comparative advantage and to escape the confines of the traditional discussion. Here are four reasons why that doctrine has commanded so much authority on so little basis.

A first source of the appeal of the doctrine is its intimate but equivocal relation to the idea of efficient resource allocation within a market. The notion of the Pareto-improving character of an international division of labor (that is, a division of labor creating more gains for all trading partners than would some preexisting assignment of productive specializations among countries), organized according to given comparative advantage and realized through free trade, may seem at first uncontroversial. It appears simply to work out, in international trade, the general idea of market-oriented exchange. Yet, from such a seemingly uncontroversial starting point, it generates results that have been described as among the most unexpected in social science. It combines a commitment to a widely accepted, even venerable postulate and a power to upset prejudice and to cause surprise. This combination lends to free trade doctrine a seductive aura reminiscent of the charms of mathematical discovery.

The translation of the general idea of market-based allocation into the doctrine of free trade on the basis of established or constructed comparative advantage reveals a general feature of the style of economic theorizing that has come to prevail since the rise of marginalism. The idea of the market as a perpetual-motion machine, able to allocate resources to their most efficient uses, remains immune to empirical or normative attack only so long as it also remains empty of explanatory or prescriptive consequence. The greater its analytic purity, the weaker is its power to explain or to guide. It achieves its power by its admixture with causal ideas and normative assumptions that it must borrow from other bodies of thought.

The workings of free trade doctrine illustrate this dilemma of purity and sterility. The idea of market allocation through an international division of labor acquires definite meaning and force only by relying on controversial assumptions that are crucially incomplete. The more we come to see comparative advantage as made rather than given—made by political initiative and collective action outside the market, as well as by the standard forms of market behavior—the less the doctrine, in its narrow and conventional form, makes sense. If comparative advantage becomes the standard by which to assess the merits of any given assignment of productive specializations among countries, we cannot know for sure to what alternative assignments we should compare the existing assignment.

Another example is the view of the alternative institutional forms that a market economy may take. The assumptions about property and contract, or about the relative cross-border mobility of different factors of production, or about the ways in which governmental initiative and private enterprise may interact are not minor details; they go to the heart of the free trade program. We cannot infer answers to the questions they pose from the abstract concepts of the market or of free trade. We must ground those answers in contentious causal or normative views.

A second source of the prestige of the free trade teaching has to do with the relation among intellectual life, power politics, and historical experience. The periods in which free trade theory has
enjoyed its greatest influence have been those in which intellectuals in the leading powers of the day have felt greatest confidence in the world order those powers sponsored. Free trade has been merely an aspect, if an important one, of those cosmopolitan projects. It has promised to give the cosmopolitanism of the moment support and consequence in the hard, tangible realities of commerce.

Conversely, the times in which the hold of free trade doctrine has weakened have been those in which intellectuals in the leading powers have lost confidence in the ability of those powers to shape the world order. It was in such a situation that Keynes in the 1920s underwent his apostasy from the liberal and Ricardian teaching about free trade. In the course of modern history, moments of loss of faith in the power of the hegemons to consummate the marriage of hegemony and cosmopolitanism have been uncommon.

A different and more persistent, but less audible and less prestigious, resistance has emerged from two other quarters. It has come from practical economists and publicists in emerging but still peripheral powers in the imperial order, for example, Henry Carey in mid-nineteenth-century America and Friedrich List in mid-nineteenth-century Germany. It has come as well from the thinkers of backward countries still far removed from the prospect of achieving rich country and world power status, such as the dependency theorists of the 1960s and 1970s in Latin America.

However, these seats of resistance were no match for the teachings of respected intellectual authorities in the imperial centers of the world. The first group of potential resisters were in the process of acquiring a share in the imperial mantle. The second group found themselves relegated for an indefinite time to the outer circles of an intellectual and political purgatory.

A third source of the influence of free trade ideas is the familiar association between selectivity in trade policy, or indeed in any branch of policy, and the capture of governmental power by private interests. We have been repeatedly taught that although governments cannot choose winners, losers can choose governments.

The champions of free trade ideas have been able to claim that rent-seeking behavior feasts on protectionism.

Their claim is not unfounded. Any form of selectivity in the design of law and policy, including trade law and policy, can provide opportunities for the extraction from the state of favors that wound the public interest. In so doing, it may limit economic growth and redistribute to successful rent seekers whatever growth occurs. However, this undisputed fact is not the end of a story; it is only the beginning of a story, as later parts of the argument of this essay seek to establish.

The extent to which governmental power is susceptible to capture by private interests—or to seduction by untested and unfounded dogma—is not a constant, an eternal law of the relations between the government and the economy. It is a variable, shaped by the organization of politics. It is a variable in the same sense that the distortion of markets by asymmetries of power and information is a variable; the former variable is at least as pliant as the latter to conscious institutional design and policy experiment, or simply to the variations of historical experience. If we could have a state less vulnerable to manipulation by powerful special interests and a policymaking practice less inclined to suppress decentralized experiments in the name of imposed schemes, we might have more selectivity in trade policy with less danger. The nature and transformation of politics help determine the limits of the possible in the economy.

A fourth source of the magnetism of free trade doctrine is the power of the political hopes concealed within its prosaic frame. Remember the political emphasis in David Ricardo's canonical statement of the theory of free trade and comparative advantage: “Under a system of perfectly free commerce each country naturally devotes its capital and labor to such employments as are most beneficial to each. By stimulating industry, by rewarding ingenuity, and by using efficaciously the peculiar powers bestowed by nature, it distributes labor most effectively and economically; while, by increasing the general mass of productions, it diffuses benefit, and binds together, by one common interest and intercourse, the universal society of nations throughout the civilized world”

The theme of trade as a union of interests capable of smothering or diluting the passions of national glory and power had been a familiar idea for at least several generations before Ricardo wrote. The Ricardian conception of open commerce on the basis of comparative advantage added a vital twist: common sense and material interest, although relatively uncontroversial, would lend support to a project of untrammelled commercial intercourse among nations that was much contested. Once the controversial implications of free trade acquired the authority and the solidity of the much less controversial premises, we would all find a way of buying and selling instead of making war or lighting ideological fires.

Free trade liberalism not only seemed less dangerous than pre-liberal mercantilism, it also held out the prospect of helping to get beyond the savage and inconclusive contest of national rivalries, further aroused and poisoned by wars of religion and of ideology. Commercial interest would do more than foster economic growth, it would serve civilization. It would help establish intercourse and peace on a basis more solid than philosophy, fear, and fellow feeling. Free trade among nations would be a way of agreeing to disagree. It is impossible to contemplate the contemporary rhetorical expressions and political uses of the doctrine I study here without concluding that this view still lives.

The truth, however, is that the organization of an open world economy is not a way of getting beyond the controversies of modern politics. It is just one more theater in which to express and develop them. The attempt to claim for a particular system of free trade a neutrality it does not deserve makes no contribution to world peace and reconciliation. On the contrary, disguising a contentious global project as simple common sense is asking for trouble.

Chapter 2

Troubles: The Incompleteness of Comparative Advantage

The Doctrine of Comparative Advantage

We must go further into the core of the beliefs that have informed and guided the doctrine of free trade if we are to find a point of departure for more reliable insight. This task provides an opportunity to reconsider, through an analysis of this doctrine, both our ideas about the world division of labor and our assumptions about the method of economics. To radicalize the organized anarchy and the restless experimentalism that have played so large a part in the ideal of market economy, rendered worldwide through free trade—at the cost of overturning the institutional and conceptual obstacles that continue to circumscribe them—is the impulse animating my argument.

David Ricardo’s idea of comparative advantage—refined, amplified, and qualified by subsequent thinking—stands at the center of those market-respecting beliefs. Reassessing that idea and its theoretical sequels must form part of the effort to lay the groundwork for a different way of thinking. The idea of comparative advantage has been rightly represented as a star example of the achievements of economic analysis; it is an idea that has proved to be at once fertile and counterintuitive.

The reassessment I propose does not deny the power of the concept of comparative advantage and of the tradition of theory that has developed it. It does nevertheless suggest a change of its place in theory and policy. The nub of the problem lies in what
Chapter 3

Ideas

In Search of a Point of View

To find an intellectual direction that can illuminate these historical experiences and clarify these conceptual problems, we must think beyond the boundaries of ideas that address free trade alone. We cannot do justice to the debate about free trade and protection from within the categories in which this debate has traditionally been framed.

In this chapter I offer six ideas as starting points for a way of thinking, not just about international trade but also about economic activity in general—building blocks for a different approach. Without a struggle to develop such an approach, my explanatory accounts and programmatic proposals about the world division of labor would be groundless and arbitrary, or they would be condemned to remain parasitic on the terms of a controversy that has long become sterile.

Each of the first three ideas informs one of the main theses I put forward in the next chapter. The fourth idea makes explicit an assumption on which two of the first three rely. The fifth idea is the one that has the most far-reaching theoretical and practical implications for the debate about free trade, yet also has the least obvious connection with it. The sixth idea puts the previous five in the context of a broader view of mind and work.
Specialization and Discovery: When Competition Inhibits Self-Transformation

The first idea addresses the countervailing interests at stake in the debate about free trade. It is an idea about collective learning and about the difference between the circumstances in which uncontrolled competition with more advanced competitors encourages learning and the circumstances in which such competition prevents learning. This first idea amounts to an interpretation of what the classical quarrel over free trade was always about, restated in the language of concerns that contemporaries have come to view as paramount.

To become specialized in particular lines of production, on the basis of natural or achieved comparative advantage, and yet to be goaded into improvement and innovation by continuing contact with more advanced producers—with those who produced more value with less labor—whether in those lines of production or in other lines requiring greater capital and knowledge: such was one of the essential benefits of free trade, according to the classical doctrine. Under competitive pressure, you would learn, as a country, as a sector of the economy, or as firm, to do better what you already did, or to make something new that the world valued more. The daily realities of trade with those who produced different things, as well as of competition with those who produced the same or similar things, would constantly present you with inspirations and incentives to self-improvement.

The efficiency that you achieve through specialization within an international division of labor will help you progress, both by improving how you produce what you already produce and by showing you how to move from one line of activity to another, more gainful and more demanding of capital and skill.

The core of this first idea is that there are certain recurrent situations in which this dream is likely to be realized and others in which it is just as likely to be frustrated. The difference between these two sets of situations turns on the relation in each of them among three conditions: the benefit of becoming specialized, the value of being challenged, the danger of being overwhelmed.

There are two polar situations in which the dream can be most readily realized: when your trading partners are much more advanced than you are and when they are more or less as advanced as you are. If they are much more advanced than you are, you can hope to become more efficient and productive—especially by moving into more labor-saving lines of business or forms of production—without either threatening them or being threatened by them. The constant example of their organizational and technological refinement, made patent in the daily realities of trade, will hold before you a standard that, although it may be unreachable in the short term, will nevertheless mark the direction in which you should move.

Now consider the situation when your trading partners are at a level of development—and especially of command over capital, knowledge, and the replacement of repetitive labor by machines—similar to your own. Once again, as in the circumstance of radical inequality with your trading partners, the benefits of specialized production need not be enjoyed at the cost of the possibilities of self-improvement. You and your trading partners may at any moment enter into one another’s lines of business. This ceaseless competition will make its victims: the firms that stand to lose their lead, and all the workers they employ. Nevertheless, in the face of these localized, shifting, and ephemeral defeats, you and your trading partners alike will be able to draw on a common stock of resources: the capital, the machines, the skills, the practices, the organizational arrangements, and the enacted ideas that place you and them at a comparable level of development.

But what if you and your trading partners are at unequal—but not very unequal—levels of development? In particular, what if you are the relatively more backward economy and your partners are the relatively more advanced ones? Your paths are then much more likely to cross theirs than they would be if the difference in development between you and them were stark. The situation will in this respect more closely resemble the circumstance of relative
equality: you will have the prospect of moving into lines of business in which they hold strong, even entrenched places.

However, the situation will differ from that circumstance of relative equality in two important ways. For one thing, in the course of your advance you will have to cross a dangerous terrain of transition during which you may have to compete in certain fields of production without enjoying the same productivity of labor as your relatively more advanced competitors. You will consequently be forced to rely on cheap labor. You will do so in the hope that this reliance will not prevent you from continuing to move up the ladder of labor-saving technology and organization.

For another thing, you will be less able to draw on the resources that enable your partners, in their dealings with one another, quickly to replace failure in one domain with success in others. Your stock of resources and capabilities for such substitutions will be more restricted. You may be forced to fall back on the relative cheapness of your labor as your sole compensation. It will be a perilous reliance because it may tempt you to slow or to postpone the adoption of labor-saving technologies and practices. As a result, you may take longer to shift the focus of time and attention in your society away from the activities you know how to repeat, and therefore know how to embody in formulas and machines, toward those activities that you have not yet learned how to repeat. Yet it is precisely this shift, from repetition to novelty and to the power of creating it, that matters most to the ability of a society to respond to the failure of an established line of production by replacing it with something else.

Your relatively more advanced trading partners will also be threatened. Your forced reliance on cheaper and less productive labor will crack a whip usefully at their backs, forcing them to quicken the pace by which formulas and machines come to replace whatever part of labor and production they have learned how to model as a set of repetitious operations. However, the social cost of this acceleration will not be evenly distributed throughout their societies; it will fall most heavily on the part of the labor force doing the work that the catchers-up have now taken up as their own. If the victims fail to react successfully, economic growth will go on under the shadow of increasing inequality and exclusion. If the victims do react, economic growth may be interrupted by social strife.

What this thought experiment suggests is that the different elements of collective learning, in and through competitive specialization under an international division of labor, are not foreordained to work with one another. They may work against one another. The likelihood of their working in one way rather than another will be shaped by the relative powers of whole national economies as well as by the relative capabilities of particular firms. The greatest tension—productive of an antagonism of interests that the dogmas of free trade may be unable to resolve—will arise when inequality among the partners is real but not radical: when the emergent face the established.

Politics over Economics: When Restraints on Trade Imply No Surrender to Special Interests or Costly Dogmas

A second idea concerns the relation between economics and politics. The range of alternative lines of response on which a society can draw when confronted by dilemmas such as those exposed by the first idea is not determined within the economy itself. It is determined by politics. More precisely, it is formed by the combination of two distinct but connected factors, both of them political in nature.

One factor is the extent to which the state is able credibly to represent the wide interests of society at large rather than the narrow interests of a faction or a class with privileged influence on government. The second factor is the degree to which the practices of politics and of policy, giving content to the conception of the collective interests, are experimental in character, organizing a process of sustained social discovery of ends as well as of means, of values as well as of interests, of collective self-understandings as well as of national strategies.

The creation of such a state and of such a practice of politics and policy is unfinished business in the historical experience of
humanity. Even the most vibrant democracies in the most egalitarian contemporary societies realize this ideal very imperfectly. At their most egalitarian, those societies continue to be shaped by a coexistence between class and meritocracy, with vast disparities between the power and influence of different groups. At their most vibrant, those democracies continue to rely on a narrow stock of institutional arrangements and ideas, limiting their ability to subject social privilege to popular pressure.

Public administration continues to be organized on a model of command and control: the administrative equivalent to mass-production industry, with its stark hierarchies of conception and execution, its rigid contrasts among specialized jobs, its trust in standardization as the condition of efficiency achieved through scale, its segregation of cooperation and competition into wholly separate domains of experience, and its treatment of innovation as episodic interruption rather than ongoing practice. It is as if warfare had continued to be dominated by the massed and brittle infantry formations of the eighteenth century. As a result, the making and implementation of policy cease to be sources of discovery, and become instruments for the imposition of dogma, top down.

These constraints on democratic deepening and administrative practice radically limit the range of options with which a society can respond to problems and tensions like those that the first idea identifies in the relation between the benefits of specialized production and the requirements of economic self-improvement. They force a country to make a Hobson's choice between relinquishing all restraints on free trade, even when relative advantage may justify such restraints, and imposing the restraints at the risk of allowing them to serve powerful interests and costly dogmas.

The accumulation of such Hobson's choices becomes a kind of fate, unconsciously accepted as the closed horizon within which practical argument about economic policy must move. Even if selective and temporary restraints on trade may seem justifiable in theory, they will be denounced in practice as an invitation to the evils of playing favorites and of riding hobbyhorses instead of letting the market discover the most efficient solutions. The result will be a utopian view of the market economy as a machine capable of discovering Pareto-improving solutions through decentralized experimentation, so long as it remains free of discrete instances of market failure.

The counterpart to this utopian view of the market is a dystopian view of the state—and of all forms of collective action not governed by market forces, a view seeing government and collective organization undisciplined by the market as tools of special interest and factional prejudice. The utopian and the dystopian views work together, lending credence to the belief that the political adjustments of economic forces that may seem best in theory will rarely be best in practice. In no field is this lesson more insistently urged than in debates about international trade.

Consider now the relation of these background assumptions to the traditional debate about free trade and protection. Restraints on free trade, so the argument goes, may be justified in theory—for example, by considerations such as those that underlie the first idea or by any of the traditional justifications of protection developed in the course of the long history of debates about free trade. However, all such restraints amount to exercises of political selection trumping a resource allocation generated by the market—the market as it is presently organized. Selective tariffs are, in one fundamental sense, like selective interest rates or selective exchange rates, or selective subsidies. They ordinarily serve a factional interest: whatever interest, or combination of interests, succeeds in winning power or influencing government. They will give voice to dogma: whatever belief about national development enjoys the prestige of passing fashion. The factional interests and the prestigious dogmas are all too likely to converge—the former speaking in the language of the latter—to the detriment of the collective stake in unrestrained competition and surprising discovery.

The extent to which selective policy, including selective protection, represents an invitation to the twin evils of favoritism and dogmatism is not, however, invariant. It is a variable. It varies according to the institutional arrangements that organize government and policy making. To gain an initial impression of the significance of such variation, we require no broader view of the
and public blindness. The flaw is that this view disregards or downplays existing as well as possible variation in ways of organizing politics and policy. Whether a form of selective policy that may appear attractive in principle will also prove superior in experience may depend on where it fits in a spectrum of alternative methods and arrangements—or on whether its architects succeed in broadening this spectrum.

The theoretical and practical significance of this point increases vastly when we connect it with a more general idea. The idea is that the forms of representative democracy, of the market economy, and of free civil society now established in the rich North Atlantic countries represent a subset of a larger and open-ended set of institutional possibilities. There is no direct or self-evident passage, by way of either analytic inference or evolutionary constraint, from the abstract conception of a representative democracy, a market economy, or a free civil society to any of the particular sets of contingent institutional arrangements with which such institutional abstractions have been historically associated. The chance that a form of selectivity that appears to be best in theory may also be, or may become, best in practice now appears a corollary of this general proposition.

However, the institutional arrangement of the market is not at the same level, or does not have as much importance, as the institutional organization of democracy. The market cannot create its own presuppositions, including the institutions and practices by which it is organized and the endowments of the individuals who move within it. It is politics—in the large sense of the contest over the terms of social life as well as over the mastery and uses of governmental power—that determines these presuppositions. Politics, by contrast to the market, does create its own presuppositions—it crowns itself—although it does so within the constraints imposed by the stock of available resources and ideas.

From this line of reasoning, it follows that the extent to which what is best in theory can also be best in practice is set outside the economy. The contingent limitations of politics and policy making shape it. The deepening of democracy, through the renovation of its institutional forms, increases the likelihood that what is best in theory—for example, the restraints on trade that may be justified in the circumstance of relative backwardness—may also be best in practice.

A discussion of trade policy—or indeed any other branch of practical economic argument—that leaves politics out will not simply be incomplete. It will inevitably lead to misleading conclusions. However, we cannot fill this gap by importing ideas from political science; the established political science is, for the most part, like the established economic analysis. It is deficient in the quality that we now most require: the denial to the established ways of organizing markets and democracies of their mendacious semblance of naturalness and necessity. Unable to rely on a ready-made alternative intellectual practice, we must develop the practice we need as we go along, from the inside out and from the bottom up.

Order and Revision: When Free Trade Strengthens the Capacity for Self-Transformation

A third idea has to do with the relation between the way a trading regime develops and the ability of the participants in such a regime to change themselves. A remarkable feature of the established way of thinking about free trade is that it treats these two processes as unconnected, except to the extent that more trade is supposed to bring about faster improvement under the prodding of specialization, competition, and emulation.

Suppose, however, the following contrary hypothesis. For any given level of trade or free trade, the trading regime may be so designed that it either strengthens or weakens the capacity of the trading partners to reorganize themselves, experimentally, as they go along. The constraint on self-transformation addressed by this hypothesis is not the constraint resulting from a given degree of openness to trade, as measured either by the level of protection or by the relation between a country's aggregate trade flows and its gross domestic product. It is the constraint resulting from the particular way a trading regime is organized, at whatever level of openness it may provide. What matters, from the standpoint of this hypothesis, is not how much free trade but what kind of free trade.
Consider a simple example, of great theoretical and practical importance. It rests on an assumption about the open-ended diversity of possible forms of a market economy. This assumption forms the core of one of the recurrent ideas in my argument. As a system of free trade develops, its rules may impose on the participants in the trading regime a particular version of the market economy: a definite approach to the content, sources, and scope of contract and property rights, a way to uphold the barrier separating government from private enterprise, and even a certain treatment of the rights of investors and shareholders.

The result will be to associate the advancement of free trade with a narrowing funnel of institutional convergence among the trading partners. It will be to restrict their capacity for self-revision except insofar as self-revision results from greater freedom to trade. The evolution of a trading regime may also follow an opposite tack, putting institutional minimalism in the place of such an institutional maximalism; it may prefer arrangements that leave the greatest possible latitude open to the trading partners in deciding what type of economy—indeed, what type of market economy—to establish.

This room for institutional divergence among the trading partners, built into the rules of the trading regime, will in turn increase the likelihood that the trading system will itself require more complicity and permit more revision: ongoing experimentation with the rules of the worldwide trading system as well as with the institutional arrangements of each trading partner. Instead of organizing trade among trading partners that are more and more alike, it will have to organize trade among partners that are persistently or increasingly different, in their practices and institutions as well as in their endowments and specializations.

The core of this third idea is that we should never think about free trade simply in the one dimension of relative freedom to trade and of restraint on trade. We should think of it as well in a second dimension: at whatever level of freedom or restraint, how much freedom for self-revision does the trade regime grant to the trading parties and how much restraint on self-revision does it impose on them.

In principle, the best type of free trade will be the type associating more free trade with more opportunity for self-revision. The worst type will be the type connecting more free trade with less opportunity for self-revision. The first type will promote the market-based logic of decentralized experimentalism in one dimension while undercutting it in another. The second type will express in both dimensions the same experimentalist impulse.

Consider this notion in its most generalized form, as an idea about practices, institutions, and assumptions in general rather than merely about trade or even about the economy as a whole. We can distinguish two classes of activities: the ordinary moves we make within a framework of assumptions and arrangements that we take as given, and the extraordinary moves by which we challenge and revise pieces of such a framework.

The distance between these two classes of activities may be greater or smaller. The framework may be organized to resist criticism and change and to win for itself a semblance of naturalness, necessity, and authority. It may begin to seem part of the furniture of the world; the structures it establishes will then seem as if they were natural facts rather than the frozen fighting and the petrified inventions that all social structures really are. A social or natural calamity may be needed to change such an order and to rob it of its delusive semblance of naturalness. Catastrophe will become the requirement of transformation.

By contrast, the framework may be organized to facilitate its revision and diminish the dependence of change on crisis. The distance between our context-preserving and our context-changing moves will then shrink. Changing the context, step by step and piece by piece, will become part of our normal activity.

Our stake in moving from the first situation to the second, from the naturalization to the denaturalization of the institutional and cultural settings in which we think and move, is deep and pervasive. It touches on our most fundamental interests. It is causally related to our economic interest in being able more freely to recombine people and resources: our practical experimentalism remains limited so long as we are prevented from experimenting with the setting within which, and with the practices by which, we
experiment. It has a causal connection to our social interest in the
disentanglement of cooperation from social division and hierar-
chy: no system of social division and hierarchy can remain in place
that fails to prevent the arrangements and presuppositions on
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When we understand and practice the freedom to recombine
factors of production only within an institutional organization of
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regimes of private and social property might, for example, coexist
experimentally within the same market economy.

Translated into the conception of a regime of international
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The best such regime will be the one that, at any level of the free-
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**Alternative Free Trade, Alternative Globalizations: The
Market Liberated from the Doctrine of the Market**

A fourth idea concerns the relation between the concept of a mar-
ket economy and the institutional arrangements by which it is
experiment. It has a causal connection to our social interest in the disentanglement of cooperation from social division and hierarchy: no system of social division and hierarchy can remain in place that fails to prevent the arrangements and presuppositions on which it depends from perpetual questioning, tinkering, and attack. It directly expresses our spiritual interest in being able to participate, wholeheartedly and even single-mindedly, in a social world without surrendering to it our powers of criticism, resistance, and transcendence.

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Alternative Free Trade, Alternative Globalizations: The Market Liberated from the Doctrine of the Market

A fourth idea concerns the relation between the concept of a market economy and the institutional arrangements by which it is organized. More generally, it addresses the relation between abstract institutional concepts, such as the market or democracy, and their tangible institutional expressions. This fourth idea is a presupposition of both the second and the third ideas; I have anticipated it in the course of presenting them. Until we appreciate its force, we cannot hope to rid ourselves of the superstitions that confuse debates about free trade.

The gist of this idea is that the market has no single natural and necessary form. No ideal limit exists to which market economies around the world must, should, or could converge. If convergence occurs in one historical period, it will be reversed in another; it will lack a basis in deep-seated and universal forces.

The principle bears generalization: it applies, in a similar way, to all other abstract institutional ideas: for example, the idea of a representative democracy. The meaning we habitually ascribe to any such institutional conception or ideal will be the product of a double reference, to a set of interests, values, or aspirations—an understanding of our collective stake in the institutional project that the notion evokes—and to a set of concrete, contingent arrangements with which we ordinarily associate the conception or ideal.

So long as practical and ideological conflict fails to escalate, the two references will appear to form a seamless whole: the stake we have in the idea will seem naturally expressed in the particular arrangements with which we associate it. This impression of seamlessness, however, is only an illusion, made possible by relative stagnation. Under the pressure of escalating practical or ideological strife and invention, we come to recognize that the familiar institutional vehicle could be stretched in different directions and changed in different ways. The changes in the institutional vehicle in turn make us aware of tensions and ambiguities in the interests and in the ideas that seemed naturally and necessarily realized in the established arrangements. What appeared to be a unity begins to unravel, in the mind and in reality.

Not only is there no single natural and necessary way in which a market economy can be organized, there is also no closed list of possible types of a market economy, or of a representative democracy, or of a free civil society, or indeed of any general institutional
project. All such projects remain subject to the potential disharmonies and transformations of the double reference. What we face is a penumbra of possibility around present and past experience: getting to somewhere else from where we are now, by taking steps within our reach.

The idea that the market economy has no single determinate expression in law or institutions is an old insight. In fact, it may have been the single most insistent revelation to have resulted from the evolution of legal thought in the West from the middle of the nineteenth century to the middle of the twentieth. Early nineteenth-century jurists had set out to demonstrate that a single coherent and gapless system of rules of private law, and of supporting public-law institutions, could be derived by quasi-deductive inference from the abstract idea of a market or of a free society.

However, in trying to confirm this proposition, the jurists established its opposite: their self-subversion was the badge of their seriousness. Contrary to their aims, they ended up showing that at each step toward greater institutional detail, the institutional abstractions whose supposedly predetermined content they had set out to reveal could take different turns. Each of these turns would have different consequences not only for the distribution of wealth, income, and opportunity but also for the organization of economic growth and popular government. Which turns were to be preferred was not something that could be established by analyzing the idea of a market or the concepts of property and contract; the choice depended on conjectures, informed by inconclusive experience. It had consequences for the struggle for wealth, income, and power. It required taking a position in a contest of visions of the possible and desirable forms of social order and experience.

Insight into the institutional indeterminacy of the market economy formed a vital part of the conceptual background to a momentous turn in the legal thought and practice of the twentieth century. You could not have a free society by simply clinging to a foreordained system of private rights. It was necessary to ask who in fact had the opportunity and the means to exercise the rights.

The rights depended for their reality on conditions that might fail—indeed, regularly did fail—to be satisfied: the requirements for their practical enjoyment might be missing, or denied to large classes of people. Thus all law, including the law organizing the market economy, would have to be dialectically arranged into two parts. One part would consist of rules and arrangements organizing individual initiative. The other part would ensure that inequalities of power, of wealth, information, access and opportunity never became so extreme and entrenched as to turn the first half of the law, the half shaping the exercise of individual self-determination, into a sham.

This dialectical reorganization of the law came up against a limit, of efficacy as well as of insight, that it has yet to overcome. A society can take different directions in identifying and overcoming obstacles to the reality of the rights of economic freedom. By taking one direction rather than another it becomes one kind of society, one kind of economy, one kind of market order rather than another.

The simple idea that the market economy can assume different legal and institutional forms, that it has no single natural and necessary expression, has never fully penetrated, to this day, the practice of economic analysis and the course of policy debate. It is to be distinguished from the recognition of specific market failures resulting from inequalities of power and asymmetries of information. Moreover, it leads directly to the conclusion that in dealing with a market economy we are not restricted to regulating it or to compensating for its inequalities, after the fact, through redistributive tax-and-transfer. We can reshape it, changing some of the rules and arrangements that make it what it is.

Thus developed, awareness of the diversity of institutional forms of a market economy has two applications to the debate about free trade in a global economy.

The first application has as its subject the idea of the international trading system as a regime of free trade among economies that are themselves free: that is to say, market economies. It is an application to which we come by combining two ideas. One is the idea of the diversity of institutional forms of a market economy.
Another is that free trade regimes may differ in the freedom of self-revision that they allow to their participants. At any given level of openness to trade, the more freedom of self-revision, the better.

No experiment with a particular line of production within a market economy is likely to be as important as experiments about the organization of a market economy. Instead of meaning fewer restraints on commerce among institutionally convergent market economies, free trade can come to mean less restrained commerce among institutionally divergent market economies. I have described the grounds for preferring this latter project to the former.

The second application of the idea of the institutional indeterminacy and diversity of the market has as its subject the world trading system itself. If a market economy can be organized in different ways, so can a universal order of free trade among market economies. Under such a revised view of increasing economic openness in the world, countries do not undertake to obey an institutional formula, of either international trade or national economic organization, simply because they have committed themselves to become and to remain market economies.

The effort to develop an open world economy has the same characteristic with which the jurists of the nineteenth century had to contend in their own effort to translate the abstraction of a free economic order into legal and institutional detail: you cannot justify the choice of one route over another by claiming that it is the market route. There are too many market routes. You need a view of the relation of trade to growth, and of growth to other interests and values. You need such a view as much to work out the conception of universal free trade as to define the organization of a market economy in any one country.

We are not limited to having simply more market or more regulation and command, according to the simple hydraulic model that has been the obsessive theme of ideological debate for the past two hundred years. We can reimagine and remake the market economy. Similarly, globalization, which has free trade as its practical and conceptual core, is not there on a take-it-or-leave-it basis. We are not confined to having more of it or less, to making it go faster or slower. We can have it on different terms, but only by changing how we understand and organize free trade.

The Division of Labor Reimagined and Remade: From the Pin Factory to the Factory of Innovation

A fifth idea addresses the division of labor. It considers the division of labor at any scale and scope, all the way from the division of labor at a work station, in a factory, a shop, or an office, to the division of labor in a global economy. Worldwide free trade among countries, on the basis of specialized production and natural or achieved comparative advantage, is, after all, a species of the division of labor. Our assumptions about the division of labor inevitably inform our ideas about international trade. We need to correct some of those assumptions.

The pin-factory model of the division of labor that we trace back to Adam Smith and that found its most fulsome expression in Henry Ford's assembly line no longer does justice to the realities and the possibilities of what is sometimes called the "technical" division of labor: the way work gets organized at the work station. We can best understand that model as the limiting case of a much broader range of ways of organizing work. Having wrested ourselves free of the stranglehold of that limiting picture, we can come to see the division of labor in a different light, and revise our view of what makes some of its forms more promising and productive than others. This insight in turn changes how we think about international trade.

In Adam Smith's fabled pin factory, the division of labor took the form of a rigid specialization of tasks, under stark hierarchical supervision. The counterpart to rigid contrasts among specialized tasks in the making of pins was the equally stark opposition between those who commanded or monitored, from on top, and those who obeyed, at the bottom, endlessly repeating their appointed rounds.

Such a way of organizing work seemed justified by irresistible advantages. A worker could become proficient at one maneuver rather
than being indifferently skilled at many. That most valuable of resources, time, could be saved by avoiding the need to move from one task to another. The point was to use repetition to save time.

The pin-factory model of the division of labor gained much of its appeal from its implicit connection with a particular view of the constraints on economic growth. According to this view, widely shared up to the twentieth century, the most important of such constraints was the size of the surplus society extracted and reserved over current consumption. The surplus might well have to be extracted coercively; according to Karl Marx, the continuing need for coercive surplus extraction was one of the major justifications not only of the capitalist mode of production but of all class society. The pin-factory approach to the organization of work has been seen as a tool of discipline and repression. It was supposedly needed to impose the sacrifice of present individual pleasures for the sake of future collective wealth.

This view, however, was already anachronistic and misleading when it was first proposed. We know now that the pioneering countries of the “industrial revolution” in late eighteenth- and early nineteenth-century Europe were not distinguished from China at that same period by a higher level of saving; Europe’s saving level was lower than China’s. They differed by dint of a practice of intellectual, technological, and organizational innovation, made possible by features of society and culture in which the great agrarian-bureaucratic empires ruling much of the rest of the world were deficient.

Consider an alternative view of the division of labor and of the path of its evolution. This view begins not in a distinctive understanding of production but in an idea about the mind. We know how to repeat some of our activities, and we do not know how to repeat others. As soon as we learn how to repeat an activity we can express our insight in a formula and embody the formula in a machine. Our machines can do for us whatever we know how to repeat. They can free our time, energy, and attention for what we have not yet learned how to repeat. In this way we make time count by devoting it, as much as we can, to what does not yet lend itself to formula and repetition.

The not yet repeatable part of our activities—the part for which we lack formulas and therefore also machines—is the realm of innovation, the front line of production. In this realm, production and discovery become much the same thing. We there seek to organize our productive activities so that they become a visible, collective image and instrument of our experimental thinking. Our relations to one another in this forward edge of production resemble the problem-solving work of an individual human intellect.

To understand a state of affairs, we must imagine it changed: we must form a view of what it could turn into under certain conditions and by certain interventions. The possible is the adjacent: it is what can come next, as the result of some accessible transformation of a reality that is at hand. We can turn some of these possibilities into things, we can embody experimental conjecture in material production. Production then becomes more than a consequence of experimental thinking, it becomes its embodiment.

The pin-factory model of production describes the organization of work as if labor were a machine, meant to do the things for which we use machines, whatever we have learned how to repeat formulaically. We may have reason to organize work in such a way, but only if labor is abundant and cheap enough, capital is dear enough, machines are scarce and primitive enough, and our time is of little enough value—of so little value that we think we can afford to repeat ourselves. That may indeed be the past of the division of labor. It cannot be its future.

As we begin to free ourselves from the multiple, combined constraints that make the pin-factory model of the organization of labor feasible, we move into another way of understanding and organizing the division of labor: the view of production as collective learning and permanent innovation. Its generative principle is a revolution in our beliefs about the relation of time to the division of labor. The point is no longer to save time by repeating ourselves; it is to save time by avoiding repetition. Standardization—of products and services as well as of productive processes and organizational practices—is the most visible face of repetition.
Under this new dispensation, the tendency of the division of labor will be to weaken rather than to strengthen the hierarchical discontinuities between jobs of supervision and of implementation. The plan of production will be revised in the course of its execution, with the help of all involved, in the light of obstacles and opportunities encountered along the way. Rigid specializations among the roles of the executants will become more fluid, as will sharp contrasts between conception and execution. If the plan of production is revised experimentally on an ongoing basis, so must be the lines dividing different responsibilities in that process. As a result, mastery of a set of core generic and conceptual capabilities, empowering the maximum of resilience, will become more useful than any collection of job-specific, machine-imitating skills.

Such an approach to the division of labor is likely to be realized in broad areas of economic life only if two sets of requirements are met. The first set of requirements is that labor not be so cheap and time so devalued that the pin-factory model of the division of labor remains plausible and attractive. The second set of requirements is that the state and the society support a climate in which innovation-friendly practices of cooperation can flourish.

The form of the division of labor here described as the successor and the antidote to the pin factory is a species of cooperation friendly to innovation; its success depends on a weakening of the tension that normally exists between the disposition to cooperate and the impulse to innovate. When I later return to the theme of innovation-friendly cooperation, I discuss the requirements for its advancement as a mainstay of economic growth and as a point at which our economic interests intersect our higher ends.

This contrast between the two understandings of the division of labor provides an incomplete but powerful standard by which to judge a regime of global trade. Does that particular regime help countries—all countries—to begin, or to continue, the move beyond the pin factory? Or does it, on the contrary, help turn some countries into giant pin factories (or inflexible mass-production machines) while allowing others to specialize in production beyond the pin-factory model?

A regime of international trade may discourage the move beyond the pin-factory model by, for example, the way in which, under the label of “intellectual property,” it turns innovations, including innovative processes and methods, into pieces of property. It may do so by inhibiting the worldwide movement of people across national frontiers to such an extent that it helps perpetuate vast disparities in the relative scarcities and price of labor and of capital, pushing some countries to specialize in pin factories while requiring others to do away with all their pin factories. And it may do so simply, and most deeply, by incorporating a particular version of the market economy into the rules establishing universal free trade. Such an incorporation chills the institutional experiments and the untried combinations of private enterprise and governmental initiative that the move from one type of the division of labor to another may require.

This standard of judgment would lose much of its pertinence if it lacked a foothold in a change that the world economy has already undergone. According to a familiar account of the global division of labor, more advanced capital-intensive, and technologically refined production takes place in the core, rich economies. More rudimentary, labor-intensive, and technologically primitive production goes on in the peripheral, developing economies. The hierarchical distribution of production on a worldwide basis is, in this view, the heart and soul of the international division of labor.

Now, however, we find more advanced production established not only in the rich North Atlantic economies but also in the top tier of the developing economies, as much in China, India, and Russia as in the United States, Germany, and Japan. What has flourished in particular sectors is not simply or primarily high-technology, knowledge-intensive industrial production; it is the advanced way of understanding and organizing the division of labor that I earlier contrasted to Smith’s pin factory and Ford’s assembly line.

These advanced sectors, established all over the world, are in communion with one another. They exchange ideas, practices, and people as well as technologies and services. Their network has, in some measure, already become the commanding force in
the world economy. They are responsible for the creation of a growing part of national wealth in many countries, rich or poor.

Nevertheless, these productive vanguards remain only weakly linked to the other parts of their national economies. The vast majority of the labor force in the richer as well as in the poorer countries has no chance of participating in them. The small vanguards and the large rearguards, organized on the basis of contrasting understandings of the division of labor, have increasingly become different and unconnected worlds. The abyss between them has become the source of inequalities that are many-sided in expression and powerful in effect. Such inequalities cannot be adequately redressed by the two devices available in the world for the moderation of economic inequalities: compensatory redistribution by government through tax-and-transfer and the politically supported diffusion of small-scale property.

It is, therefore, not enough to ask of a world trading regime whether it helps each national economy to move beyond the pin factory and to enlarge the range of social and economic life open to innovation-friendly cooperation. It is also important to ask whether a system of trade helps engage the masses of ordinary men and women in the movement from the pin factory to the factory of innovation so that they can stop wasting their time by repeating themselves as if they were machines.

A Central Conception: Mind against Context

Take these ideas for what they are: pieces of an understanding of economic activity in general as well as of international trade in particular. A view of the mind, and thus of our humanity, informs this understanding.*

This conception of the mind and of humanity is not at the same level as the other ideas discussed in this chapter. It penetrates and envelops all of them. It is not so much their foundation as it is their common element. It becomes a little better stated and better grounded each time that one of them advances in refinement and justification. In the context of this conception, each of the ideas explored earlier in this chapter gains deeper meaning.

The mind has two aspects. In one aspect, it is modular and formulaic. The mind is modular in the sense that it consists in separate parts, defined by their distinct functions and embodied in different regions of the brain. The expression of the parts of the mind in parts of the brain is subject to the qualification of plasticity: within certain wide limits, one part of the brain can take on the habitual functions of another. The mind is formulaic (in this its modular aspect) in the sense that these parts act repetitively according to formulas. It is in this aspect, and only in this aspect, that a mind embodied in a brain is like a set of formulas embodied in a machine.

In this modular and formulaic aspect, the mind is a zombie. It acts under the compulsion of orders. It exhausts its life in repeated moves. If, however, the mind were only a zombie, the characteristic experiences of consciousness would remain both inexplicable and impossible. Consciousness is totalizing: it envisages a field of vision, action, and problem solving as a whole and interprets particular incidents in relation to that whole. Consciousness is surprising: it defies containment by any closed system of presuppositions, methods, and canons that can be antecedently stated. Consciousness is transformative: it grasps any particular state of affairs by exploring its transformative variations—what it can turn into under the pressure of certain interventions.

A conscious mind therefore has a second aspect in which it exhibits these totalizing, surprising, and transformative qualities. Here the mind has ceased to be zombie-like. It has become spirit, if by spirit we mean the experience of not being contained or containable by any particular context of life or of thought or by any enumerable list of such contexts. In this second aspect, the mind enjoys the characteristic powers of recursive infinity, nonformulaic initiative, and negative capability. By its power of recursive infinity, it uses finite elements (of language, of thought) to make infinite combinations. By its power of nonformulaic initiative, it

makes moves that it does not yet know how to repeat or to bring under a formula. By its power of negative capability, it gains in strength, and adds to insight, by doing more than the habitual, organized settings of its action and thought will contumence. It establishes new contexts for its thought and action.

The consummate expression of this power is the establishment of settings for thought and action that invite this limit-breaking activity and turn it into a device for the ongoing revision of the setting. The result is to attenuate the contrast between being inside a context and being outside it, and to make change less dependent on crisis and the past less able to rule the future.

The relative importance of the two aspects of the mind is not a natural fact that can be measured apart from the historical moment and the social situation. Suppose that society and culture are organized to present themselves as natural facts, entrenched against challenge and change. The distance between the ordinary moves we make within the settled contexts and the extraordinary, crisis-dependent moves by which we change them will widen. The second side of the mind—with its totalizing, surprising, and transformative qualities—will have fewer occasions to express itself. It will remain in the shadows or on the margin. It will depend on exceptional talent and extraordinary occasion.

Now suppose that society and culture are arranged to denaturalize themselves by making themselves more open to criticism and revision. The gap between the routine moves we make within the established settings and the exceptional moves by which we remake them will narrow. The second side of the mind will have more opportunity to manifest itself. It will never occupy the whole of mental life. Nevertheless, it will hold an important position. The relation between the two aspects of the mind will become a matter of paramount importance. It will even emerge as a theme in high culture.

Thus, the relation between the two aspects of the mind is never conclusively determined by nature; it is ultimately determined by politics: by the arrangements of society and culture and, most especially, by the extent to which these arrangements either inhibit or encourage their own revision.

The two-sidedness of the mind expresses and helps constitute a fundamental and pervasive attribute of our humanity, our transcendence over context. To say that we are embodied and situated spirit is to recognize that we are never exhausted by the limited orderings of society and culture, of organization and belief, that we establish and inhabit. They, relative to us, are finite. We, relative to them, are infinite. There is always more in us than there can ever be in them.

We can do more than rebel against the context and reach for the insight, the invention, or the experience that it fails to accommodate. We can create contexts that allow more fully for their own revision than the contexts now established: for example, ways of organizing a market economy or a trading regime that enable us to experiment, sequentially or simultaneously, with alternative regimes of contract and property. As a result, we can loosen the dependence of change on ruin and split the difference between being inside the context and being outside it. We can engage in a particular world without surrendering to it our powers of resistance and reconstruction.

This view of the two aspects of the mind, and the larger conception of humanity with which it is connected, suggest a general approach to the understanding of economic activities and of the division of labor. A few connected and overlapping themes, central to the argument of this book, define this approach.

A first theme is the notion of a contrast between the activities or the forms of labor that we have learned how to repeat and those that we have not. We can describe the repeatable activities in formulas and then embody the formulas in machines. We can use the repetitions, the formulas, and the machines to devote increasing parts of our time and energy to the activities we do not yet know how to repeat. The dialectic between the repeatable and the not yet repeatable is central to our material progress, including the rise of productivity: labor productivity in the first instance, and total factor productivity through the chain of causal connections to which the rise of labor productivity belongs. And it is anchored in the relation between the two sides of the mind.
A second theme is the contrast between two directions in which to arrange the division of labor at work. One direction reduces most of work to the zombie-like activities of the first aspect of the mind, and reserves the totalizing, surprising, and transforming attributes of the second side of the mind to the supervisor or power-holder on top. In this direction lies Adam Smith's pin factory and Henry Ford's assembly line: stark contrasts between supervisory and implementing jobs as well as among the tasks of implementation.

The other direction, the factory of innovation, gives much greater place to the second aspect of the mind in the organization of the mind. It treats the implementation of tasks as an opportunity for their revision, and softens the contrasts between conception and execution as well as among jobs of implementation. It uses our ability to repeat, expressed in formulas that are embodied in machines, to shift more of our time and effort toward the frontier of those activities that we do not yet know how to repeat. In this way, it turns the workplace more nearly into a practical expression of the imagination. (Imagination is only another name for the second aspect of the mind.) In so doing, it also provides in microcosm a model for the remaking of all society.

A third theme is the decisive importance to economic growth of a family of cooperative practices that I have called innovation-friendly cooperation. All forms of material progress, including economic growth, depend on cooperation. A market economy itself, I later argue, is a form of simplified cooperation among strangers that depends on a modicum of trust; such an economy is impossible when there is no trust among the strangers and unnecessary when there is high trust.

However, innovation is almost as important as cooperation. Innovation depends on cooperation: it is impossible to innovate, organizationally or technologically, without securing cooperation. The imperatives of innovation and cooperation nevertheless regularly conflict because every innovation threatens to disturb the vested rights and settled expectations in which any cooperative regime is entangled. A new technology, for example, is likely to be perceived as strengthening the hand of an established or emergent segment of the labor force while threatening the jobs of another segment.

A benefit of great value results when we succeed in designing regimes of cooperation that moderate the tension between cooperation and innovation. The form of the technical division of labor that I called the factory of innovation is itself an expression of such an advance. So, more generally, is any form of cooperation, such as commando warfare, in which the definition of what to do is revised in the course of doing it: all responsible for executing have some share in redefining, and the participants refuse to allow preexisting hierarchies of advantage or allocations of role to restrict how they can work together.

The family of innovation-friendly practices of cooperation depends on conditions that also help shape its character and meaning. Basic educational and economic endowments, with their enabling effect on the individual, must be as universal as possible; they must not depend on holding any particular job. The society, although unbound by any rigid commitment to equality of circumstance, must be relentless in pursuit of equality of opportunity. It must prefer practices and arrangements that destabilize entrenched divisions of role and hierarchies of advantage, whether or not the advantages at issue result from the hereditary transmission of property or of access to high-quality education. The culture must be penetrated by an experimentalist impulse. This impulse must find sustenance in a practice of teaching and learning that is problematic and analytic rather than informational in its method, selective rather than encyclopedic in its scope, cooperative rather than individualist or authoritarian in its social form, and dialectical rather than canonical in its orientation.

Such conditions depend for their fulfillment on the public and private cultivation of the powers associated with the second side of the mind. They in turn help establish a setting in which this aspect of our mental life can become central to our individual and social experience rather than remaining in the shadows.

A fourth theme is the need for a way of thinking about markets and market organizations that judges any particular form of market organization by the opportunity it offers for its own ongoing,
piecemeal reconstruction, as well as for the free combination of factors of production and the free exchange of what is produced. When we witness increasing freedom to exchange and trade and increasing freedom to combine factors of production, we may be tempted to say that the principal idea of a market economy has been realized. These twin freedoms, however, may be realized in an institutional context—a way of organizing market-oriented exchange and production—that remains largely immunized against challenge and change.

Once we become aware of this hidden constraint, we find ourselves forced to direct our thoughts to a second, unfamiliar level of concern. We need to consider the range of freedom to renovate the institutional framework of market activity as well as to transact within that framework. Our assessment of whether the market principle has been radicalized will now depend on two sets of considerations rather than on one. If advance in freedom at one level—freedom to transact and to combine factors of production—is bought at the cost of failure to advance at the second level—freedom to vary and to revise the transactional setting—we must judge ourselves unsuccessful.

We do not arrive at this way of thinking about markets until we defy a prior premise of much conventional economic thinking: the notion, rarely acknowledged in theory but habitually honored in the practice of analysis and argument, that the market has a single natural and necessary institutional expression. Defiance of this notion may seem sterile. It provides support, however, to the way of thinking about markets I have just described. It becomes fertile through its marriage with the imagination of alternative institutional forms of a market economy.

The two-level thinking about markets that results is incompatible with much in our received assumptions about free trade. It will not be enough for an international trading regime to lower barriers to trade if, in so doing, it hinders experiment and diversity in the way each of the trading partners arranges production and exchange and organizes its own market economy.

The more we approach trade in particular and market-oriented activity in general with an eye to these two levels of concern rather than just to one, the greater the likelihood that our proposals will make the world safer for the second side of the mind. The best framework—including the best framework for global trade—will be the one that is least a prison, even if this prison has graven over its entrance the word freedom. It will therefore also be the one that offers the most propitious home for our powers of recursive infinity, nonformulaic initiative, and negative capability.

A fifth theme is that, in the development of economies, the creation of difference is as important as the selection, from the diverse stuff, of the most efficient solutions. As in biological evolution, the results of natural selection depend on the range of variation in the material subject to selection, so in economic history competitive selection depends for its effect on the range and variety of the material to which it applies.

What differences? To specify all the relevant forms of difference, we can begin backward from the output of economic activity, through the processes, practices, machines, and organizations that produce it, until we reach the institutional setting of production and exchange: diversification of goods and services; of ways to join people, ideas, and machines in production and trade; and, finally, of the basic institutional arrangements for market activity, including the regimes of property and contract.

A way of thinking about economic activity that treats the diversification of the material subject to competitive selection as equal in importance to the competitive selection of the most efficient outcomes will differ in orientation and result from one that focuses solely on the latter and takes the former for granted.

The translation of the idea into the practical agenda of development economics helps reveal its intuitive core. Governmental initiative and collective action may be needed to counteract the inhibitions of relative backwardness: for example, the difficulty of using the skills development in one line of production to carry forward another. Not only may the net of productive activities be too thin, the activities by their very backwardness may refuse readily to yield a set of generic, context-transcending capabilities that can be extended to other, neighboring lines of production. For this and other reasons, it may be vital to make up for the
missing conditions and deliberately to arouse a fever of creative entrepreneurial activity.

It then becomes all the more important to impose a rigorous selection, through domestic and foreign competition (subject to the qualifications I later explore), of the products of this activity. However, the arousal is as important as the selection; the two must advance together, through a series of successive efforts at overcoming particular constraints on both the supply and the demand sides of the economy. It is just such a coexistence between arousal and selection that this conception generalizes to the economy as a whole. This generalization enables us to treat diversity and efficiency as concerns of equivalent weight in economic thinking.

Like the fourth theme, to which it bears a close relation, the fifth one is connected to the image of the two-sided mind through a view about our relation to the institutional and conceptual contexts of our activity: the same view I invoked when first presenting that image. The deep source of the importance of difference lies in our transcendence over all the particular contexts of our activity. There is always more in us, individually and collectively, than there can ever be in them. From this fact arises our inability ever to find an absolute frame of reference in thought or in social life, one that can accommodate the full scope of our powers and the full range of the experiences that we may have reason to value.

The next best thing to an absolute frame of reference is a frame that facilitates its own remaking and that allows us to engage, on the terms it specifies, without surrendering our powers of criticism, resistance, and revision. To engage without surrendering, and thus to be in the world without being entirely of it, is a fundamental species of freedom and power. The fourth theme, with its emphasis on freedom to change the transactional framework as well as freedom to transact, is directly related to this view.

The fifth theme—the theme of the central importance of the creation of difference in economic life—is connected with a further implication of the same view. Because there is no definitive context for our humanity, including no context that can do justice to our powers of invention and production, we can become big-