News_BMFE_2000-54.pdf

16/04/00 Sunday Island

Can a semi-feudal state meet the challenges of globalization?

by Analyst

It is fifty years since we obtained Independence, but we have not succeeded in achieving economic independence. Without economic independence, political independence has been more nominal than real.

At Independence power was transferred to a ruling class with the same outlook as the former colonial power. This class did not show much understanding of the economic relations in society. They merely imitated whatever ideology, prevailed in the West. They were influenced by the Beveridge Plan in post-war England. They introduced free education and free health and subsidized rice, flour & sugar.

Since the Korean War produced a boom in commodity prices, particularly rubber, they took for granted that the funds for these welfare schemes could be found by taxing the plantations, which they proceeded to do.

In 1956 there was a shift of political power to an indigenous Sinhala educated bourgeoisie. But this emerging elite had no vision how to secure economic independence. They had no social or economic vision and borrowed the Marxist recipes of nationalization. But they did not understand the Marxist logic behind such State takeover of large enterprises from the private sector, like the banks, the insurance companies, the port, bus transport, the foreign oil companies etc.

The Marxist logic in taking over these enterprises by the State is to mobilize the surplus value generated by way of profits. These profits were to be invested in productive enterprises to generate economic growth. Under feudalism the ancient kings had mobilized capital in this way but such capital went into the construction of pyramids, temples, medieval cathedrals etc.

The ruling class that came to power in 1956 did not understand the nature of capitalism and the need for capital accumulation. So they used the nationalized enterprises to solve the unemployment problem of the rural and semi-urban unemployed. They did not wish to increase the prices of the products and services of such State owned enterprises owing to the need to be re-elected to power at the next elections.

They made no attempt to generate surplus value which is the basis for capital accumulation. Instead they consumed capital and undermined the rationale for the setting up of these State owned enterprises. Soon they had to be financed from the State Treasury.

With the decline of primary product prices and the continuous increase in the prices of industrial goods, which were imported, the terms of trade turned adverse. It was only a matter of time before the continuance of these Stated owned enterprises became an issue.

There was no other source of capital accumulation either. The threat of nationalization of the estates hung over the agency houses throughout the 1960's and the plantation instead of investing, actually ran down their estates. Capitalism or the free market system cannot develop unless there is capital accumulation and investment in the enterprise. It is that part of the surplus that is invested that leads to the progress of the economy.

Attempts at import substitution, although basically in the correct direction, did not lead to any sustained process of capital accumulation and re-investment, merely exploiting the consumer. The private sector did not trust the United Left Front government enough to re-invest their profits. They preferred to accumulate their profit abroad knowing the economy was essentially unstable.

There was also profit to be made through the foreign exchanges owing to the constant need to devalue the rupee. Short-term profit generation through the re-conversion of money from the dollar or the pound to the rupee, gave more profit than any investment in production. Losses were socialized by the regular devaluations.

State Intervention

The neo-classical economists have shown that there is a role for the State to intervene where markets fail due to externalities. But of what benefit is the type of semi-feudal State we have? Will such a State promote economic development? We have seen how this State comprised of a petit bourgeoisie; have misused the resources of the State for their private benefit or to benefit their political supporters. Will State intervention help unless we can transform the State: The private sector entrepreneurs must have greater influence over the State and it must be made to act in the interests of capital accumulation if there is to be economic growth at a faster rate. Economists have pointed out the importance of incentives; when the price of beer goes up people buy less beer. Incentives matter and economists have shown that it is not only in the economic sphere that incentives matter.

Economists have studied how people choose marriage partners, decide on how many children to have, whether to divorce the wife or not, where incentives matter. The number of murders have been reduced after the death penalty was re-introduced. Murders would be more if there was no death penalty according to studies by Professor Isaac Erlich in the 1970's. The economists of the Public Choice Theory have shown that politicians act on the need to be re-elected. We saw the end of bi-partisanship recently on the question of increase of the salaries of the Members of Parliament. See the wonders of common incentives.

The question is whether we can ever expect to see the politicians giving priority to economic growth rather than welfare, to capital accumulation rather than the exercise of political patronage. At last the World Bank has realized this same problem, that capital accumulation cannot be promoted without good governance. So they now give emphasis to good governance and the removal of corruption.

Those who have a stake in such corruption and misadministration will argue that this is another form of neo-colonialism or imperialism, that it is unwanted interference in national sovereignty. But the World Bank has enough clout to check the politicians because the economy now depends on foreign aid & foreign capital to carry out any investment. Of course we cannot depend entirely on foreign capital to develop the country. They will take out dividends and interest, which will be a constant drain.

The logic of capitalism is that the capital is accumulated and re- invested in the country according to our priorities. This cannot happen unless the bulk of capital accumulation is by the local capitalists or the State. The strong trade unions in the organized sector prevent any substantial capital accumulation by increasing wages beyond the increase in labour productivity.

No policies have been formulated to mobilize domestic capital for self-reliant development. When USA, Canada and Australia became politically independent, they were able to protect their industries and develop autonomously because they took the necessary policies to do so. Some economists feel that these countries were able to develop because their settlers came from a capitalist background where they understood markets and how they operate. They accepted free markets as conducive to their economic growth. But their development also took place at a time when the total market, the world market, was growing. But our politicians have not considered economic growth a priority and failed to generate efficient employment for the surplus rural population, but only educating them to be in the ranks of the unemployed

Globalization

Meanwhile the international environment has changed and changed adversely. Globalization is upon us and we see no way to resist it. Globalization is not the mere internationalization of trade or capital. These have existed for several centuries. It is rather the globalization of the capitalist economy and the widespread flow of finance capital. It has become much more than an economic movement with its impact on society and culture as well. It tends to bring more and more human activity within the logic of the market. It also involves an integration of the production systems of different countries as well as integration of the exchange value systems.

The trans-national companies spearhead the process. Computer parts are produced in different countries and assembled according to the needs of the market. Earlier rules of origin no longer apply. It does not matter where the final product is assembled, be it Japan or USA. All this is made possible by the new technology of computers and satellite communications. Globalization of finance capital is almost complete. Over a trillion dollars move daily across national frontiers in the foreign exchange markets and stock exchanges of the world

But the world capitalist system is no longer able to sustain itself in the same way as in the last 50 years. This is because the improvements in the productivity of labour have declined in all the metropolitan countries, the G8 countries like USA, European Union, and Japan. Earlier it was possible for the system to increase the wages of labour and provide welfare services through taxation. But now productivity of labour no longer increases as before and any wage increases will have to come out of the share of profits, reducing capital accumulation in the economy.

So if the third world is to enter the global process it will have to restrain wages to increases in productivity and cut down on welfare. Countries living beyond their means have to follow structural adjustment policies if they are to continue to be part of the world economy. With the collapse of the Communist economies of the Soviet Union & Eastern Europe the third world has come to accept the Washington Consensus that there is no other model of development except the neo-liberal model preached by the World Bank, IMF and WTO.

China and Vietnam are moving towards free market capitalism. But if the total market, the world economy does not increase continually, it will be harder for newcomers to the market to capture a part of the trade. This is where the government must come in, particularly in developing countries like ours. But a semi- feudal type government, which merely wants to hang on to power and seeks only to be re-elected, will not have the perspective to undertake such a role.

According to Marxist analysis, the State is seen not as a neutral arbiter of different interest groups but as the agent of a particular group in society. Which group in our society is represented in the State? Since there is no dominant group in our society with sufficient unity or agreement about its goals our State and ruling class perhaps doesn't represent any coherent group at all. There is no particular group, which could be considered a ruling elite so politicians are free to run the State for their private and political advantage. They vote themselves high salaries and unbelievable perks not available even to their counterparts in the developed world.

For the five decades since Independence those who ruled us have managed to manipulate the press. The myth was created that the persons who ruled us were gentlemen of unimpeachable integrity and dedicated to serving the people. As a result most of their shenanigans went unreported. Of late the press has taken to investigative journalism. They have concentrated on the powers that be, as they should. They enjoy credibility. So much so that the people have come to believe that all politicians are corrupt when they are in power.

To be Continued