

IS THE STATE AN IRRELEVANT ENTITY IN THIRD WORLD ECONOMIC DEVELOPMENT?

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The role of Monetarism in the transformation of World Capitalism

Capitalism continuously transforms the World economy intensifying its transformation at certain periods. The development of Imperialism at the end of the last century was one such period. The end of the Second World War saw another such transformation with the re-construction of West European and Japanese Capitalism and the opening of world markets to US transnationals. In the present transformation attempts are made to revamp Western Capitalism in decline, by freeing world trade and the promotion of international capital. A salient feature of the present transformation is also the rise of the Newly Industrialising countries of the Third World as major manufacturing centres.

In the current transformation of the world economy with a greater integration into the world economy, the capitalist world at the start of the 1980s has made a determined shift to Monetarism as a means of addressing some of the problem areas of the current capitalist phase.

Monetarism has been given a push in the Third World - opening up its economies to the international market through appropriate strategies adopted largely by IMF and World Bank policy. The IMF has leverage on Third World economic policy through its ability to finance Balance of Payments deficits and impose policy prescriptions on debtor nations to adopt free market ideology.

These policy formulas favour a switch from import substitution to export orientation in Open economies with possibilities for Western Capitalist penetration. The rejection of the concept of the Interventionist state - reducing its size and range of its responsibilities is central to the ideology of free market economics. This is said to further enhance the free play of market forces. Monetarism has hence been prop-

agated around the world with deregulation and privatization becoming global buzz words.

The spin offs of State intervention are not entirely negative as popularly conceived

Whilst no one denies that few options are now available to market reform to promote economic development, and whilst even the Command Economies of Eastern Europe are trying to switch over to the market economy, the spin offs of state intervention are not entirely negative as popularly conceived. There are the Newly Industrialising Countries of East Asia that have emerged as major manufacturing centres - generating phenomenal growth rates. These nations have grown not because they were deregulated as was widely acclaimed for some time. South Korea, Taiwan, and Singapore where high

levels of state intervention can be seen, the state is in no way in conflict with a well functioning market economy.

State intervention need not conflict with the law of value

According to Monetarist arguments, bringing in economic regulation into the political domain makes it subject to the imposition of political priorities which conflict with the law of value.

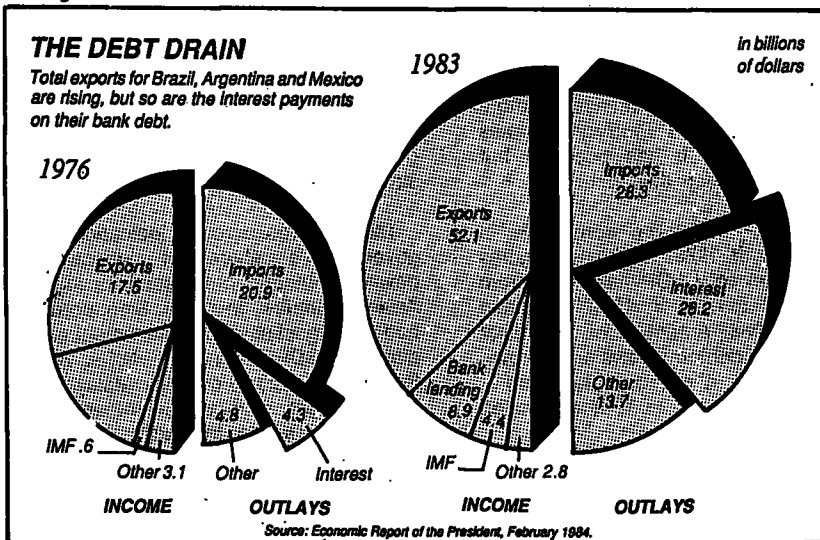
The essential point is that before one advocates policies of delinking of government and business through liberalisation and deregulation, one ought at the minimum to ascertain whether government regulation and intervention have the effect of sustaining or constraining profitable investment. The experience of some of the NICs shows that Statist strategies need not conflict with the law of value. Table 1 Column 1 shows the share of government expenditure in GDP and column 2 shows the proportion of government expenditure on economic services in some Asian economies. These figures taken along with the annual growth rates of GDP in column 3 shows that government involvement in the economy has resulted in no apparent conflict with the generation of growth in respect of the 4 NICs. In fact growth rates have continued to be high in these economies in the years 1973-84 as shows in Table 1.

Table 1
Share of Government expenditure and Growth rates

	Share of Government expenditure in GDP	Proportion of Government spending on Economic Services	Annual growth rate of GDP
	1984	1972-1984	1973-84
South Korea	17	24	7.2
Taiwan	14	20	8.5a
Hong Kong	15	22	9.1
Singapore	34	18	8.2
Indonesia	23	62b	6.8
Philippines	11	36	4.8
Malaysia	35	26	7.3
Thailand	18	19	6.8
Nepal	19	52	3.1
Bangladesh	14	51c	5.0
Pakistan	25a	32d	5.6
India	15	24d	4.1

Source: Columns 1 and 2 extracted from Table - 'Factors contributing to the productivity of investments' Column 3, extracted from 'Comparing Sizes and Growth rates' in 'Can the Rest of Asia emulate the NICs' - Third World Quarterly October 1987.

Diagram 1



SOURCE: NEWSWEEK/MAY 28, 1984

glomerates— the 'Chaebols' — the state tried to create trading companies on the Japanese model. The Heavy Industry plan favoured these conglomerates which enjoyed protection in the form of restrictions on competing foreign investment, guaranteed sales through government procurement, subsidised credit and monopoly or oligopoly market positions. By 1980 Chaebols dominated the South Korean economy accounting for 50% of her exports, 49% of GDP and 24% of total sales.

Foreign Capital strengthens the Third World state apparatus — historical forces consolidating state power

In the 70's the rapid expansion of transnational loan capital was instrumental in re-inforcing the state's role in the economy. As private Commercial banks expanded their Third World portfolios and official assistance receded in importance, this had the effect of making state managers take on the role of overseers of industrial growth and crucial intermediaries between private bankers at the Centre and productive investments in the periphery. 80-90% of the Eurocurrency lending to Third World countries are loans to public sector establishments and the rest carry state guarantees.

In South Korea in the 60s foreign loan capital accounted for 95% of all foreign capital and this pattern continued into the 70s on a lesser scale. South Korea's preference for foreign loans was the leverage it exerted over local industrialists, through government approvals and repayment guarantees needing the State's favour. Since foreign banks consider the state as the least risky borrower there is a strong case for the state being included as a partner in joint ventures. Park Chun Hee's regime in Korea was keen on tempering the power of transnationals, and for this purpose South Korea preferred loan capital,

as she was able to accept transnational investment on favourable terms. In South Korea's development the State has had a leverage over both transnationals and local capitalists.

In Taiwan some of the most important initial investments by United States TNCs in the SOS included the State as a partner. The motive behind these joint ventures may have been TNC fears for political instability. The experiences of these states hence point to the relevance of the State in the process of development. State intervention does not always have negative results.

The Third World State wrests benefits from the Transnationals

According to J.P. Nettle ".....regulating relations with the external world is the classic locus of state power"

Singapore stands out among the NICs as being a state dominated by TNCs whilst the TNC stake in South Korea and Taiwan and even in Hong Kong is not insignificant. All except Hong Kong have strong dirigist states, and in spite of the widespread impact of the TNCs in the region, countervailing bureaucracies in these state have managed to wrest important concessions from the transnationals. This counters the traditional argument that the global extension of transnational power exerting considerable leverage on states, circumscribes the Third World state.

The evolution of bargaining between the Mexican state and the automotive transnationals illustrates the effective challenges made by the Third World state. In the 1960s the Mexican bureaucracy did not possess the technical expertise and other ingredients necessary for effective bargaining with the transnational. But by 1977 Mexican state managers were able to structure their proposals to make the automotive

TNCs effectively resolve and ameliorate Mexico's Balance of Payments problem. The TNCs were made to accede to the use of local parts supplies. A proportion of the agreed on exports consisted of parts exports from Mexican owned firms — so giving a stimulus to the Mexican owned auto parts industry built up around the foreign owned assembly plants.

State intervention in Brazilian and Indian Computer industries

The extensive state interventions that have occurred in the Brazilian and Indian Computer industries also show some effective challenges to TNC domination.

Here a conscious effort has been made by local bureaucrats to show the importance of indigenous control of the industry partly in view of future national security considerations. In both countries agencies were created that limited TNC participation. State enterprises embarked on the creation of computer designs and state regulations began to play a fundamental role in shaping the computer industry. By making it more difficult for TNCs to enter the Computer Industry, State intervention tended to make TNCs license their technology to local firms. State intervention vis-a-vis transnational capital rather than being a break on development as widely acclaimed, provided in these instances a vital link in stimulating local industrial development.

A Strong State capable of taking hard economic decisions

To critics of Statism, corruption and inefficiency are synonymous with state intervention. The experience of South Korea and Taiwan and some of the other NICs point to the fact that they are not inherent characteristics of State intervention and that these states have been able to limit these tendencies though the remedies may involve painful choices.

Industrial growth requires a State that is sufficiently strong and independent from particular class interests to implement policies that will promote accumulation at the expense of other interests. Classes which derive their wealth from unproductive activity such as speculation need to be prevented from gaining overwhelming control. Taking action against corruption and inefficiency in the interests of business efficiency are hard decisions which are contrary to the interests of sections of the business and bureaucratic classes and require a strong state apparatus that will promote accumulation at the expense of other interests.

Conclusion

Whilst not denying the importance of 'getting the prices right' as the Monetarist school of economic thought maintains, it becomes evident from the forgoing analysis that it has been possible to sustain

economic growth using a selective mix of policy choices which reserve some space for the State.

Regulatory mechanisms such as a Capacity Licencing in India aimed at allocating industries according to government priorities have hindered industrial growth no doubt. Egypt's state managed sector has proved a failure largely because of Wage and Employment policies. State intervention cannot however be balm for the institutional weaknesses that have led to these failures.

As the experience of Japan and some of the Newly Industrialising countries have shown, a close link has been forged between the State and business interests in these countries - promoting high growth levels. The spread of loan capital in the Third World in the 70s was instrumental in strengthening the State apparatus vis-as-vis the transnationals. States in the developing world were able to wrest important concessions from the Automotive and Computer transnationals in Mexico, Brazil and India in the 70s.

Even Monetarism needs the state to intervene to improve the workings of the market. Transformations in the world economy are brought about by multinational corporations, banks and an array of capitalist enterprises. But none of these transformations could be achieved autonomously by these enterprises. State power is integral to the process and government policies have promoted this re-structuring in different ways.

The pursuit of economic growth under a market economy need not involve the dismantling of much of public investment as it often does. A state that manages to maintain high growth can afford a reasonable welfare package for its citizens. Yet the return to economic orthodoxy is often followed by sobering austerities. In Latin American public investment in such projects as education, health, nutrition and roads dropped by 40% between 1982 and 1988. In Mexico the investment in these services dropped to its lowest level in 50 years. These are vital amenities for Third World nations and the State must have sufficient clout within the economy to maintain these services at reasonable levels.

All this demonstrates that there could be a positive link between State intervention and economic growth, that a re-structured state still serves as useful purpose, and that there is no valid reason to push back the boundaries of the State much further.

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'Institutions and Economic Policy - Theory and a Korean Case Study' Stephan Haggard and Ghung-Moon in 'World Politics' Jan. 1990.

The World Development Report 1987.

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USA

The U.S. trade deficit fell 34.7 percent to \$ 5.07 billion in June as exports hit a record high, marking the best monthly trade performance in more than seven years.

Behind the improved trade figure was a big drop in the U.S. oil import bill, which fell by 15 percent to \$3.69 billion in June from \$ 4.32 billion in May.

* The U.S. Chamber of Commerce says that it expects the U.S. economy to grind to a standstill during the third quarter of 1990 and to contract by 1.4 percent in the fourth quarter.

The Chambers chief economist, Richard Fahn, said the business group anticipates the economy will continue to experience negative real growth in the first quarter of 1991 and practically no growth in the second quarter.

* The income gap between the richest and poorest Americans widened enormously from 1980 to 1990, according to a report by the Centre on Budget and Policy Priorities, a liberal-oriented nonprofit think tank.

One of the main reasons, the report contends, was a huge increase in capital gains by the top 1 percent of Americans.

As a result, wrote authors Robert Greenstein and Scott Barancik, "the richest 2.5 million people now have nearly as much income as the 100

million Americans with the lowest incomes."

The figures show that the average after-tax income of the poorest fifth of American households, measured in 1990 dollars, dropped from \$ 7,357 in 1980 to a projected \$ 6,973 in 1990. Average household income of the next three-fifths of Americans is projected to rise slightly.

But the top 1 percent will enjoy a rise from \$ 213,675 to \$ 399,697 - 87.1 percent, according to the projections.

Mr. Greenstein, in an interview, said the wealth of high-income families has been growing much more swiftly than that of low-income families because wages of low-income and middle-income earners have been stagnant.

* In a further sign of weakness in the economy, the number of people receiving food stamps and welfare benefits has jumped sharply this year.

At least 44 states have reported increases in enrolment, some ranging upto 50 percent.

"Participation in the food stamp program has grown dramatically in the past 12 months," according to a report submitted to Congress by the Agriculture Department, which administers the program.

Though some factors unrelated to the economy were cited as contributing to the increases, the food stamp rolls are considered a barometer of the nation's economic climate.

They often signal economic difficulty in advance of the jobless rate because employed workers may qualify for food stamps when they experience a reduction in wages or working hours.

The number of people on the food stamp rolls rose by 1.3 million from May 1989 to May 1990, when it topped 20 million for the first time since 1985.

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