

Against neo-liberal notions of development

Outcome and process

The fact that an economy corresponds to a neo-liberal description does not mean that the economy has followed a neo-liberal path of development. Neo-liberal hypothesis that a path of balanced industrialization would move the economy from labour intensive to capital intensive activities due to changes in factor proportions. Most processes of industrialization follow such a path (from labour intensive to capital intensive industries) but not through the operation of the “market mechanism”, but rather through deliberate intervention to create the necessary social, technological, organizational and institutional conditions for the transition to take place. Thus, the fundamental question is not whether the economic structure corresponds to an hypothetical free market outcome of economic development, but whether the construction of such a structure was done by free markets or not. In other words, the fundamental question regards the process, rather than the final outcome, of industrialization.

State-led liberalisation

Most liberalisation processes have engaged the State very extensively. First, liberalisation is often synonym of State withdrawal: therefore, the State has to decide to initiate the process and the sequence and speed of reform, and has to establish the necessary institutional conditions that support the process of liberalisation (re-write the law, abolish or reform existing organizations and create others, reform the relationship between the State and the private sector, adjudicate property rights to the private sector, etc). Second, the State has to set up incentives that either reinforce or change the existing pattern of economic development. Third, the State has to set up mechanism to actually create a competitive environment where none existed before (competition policy, etc). Fourth, the State has to monitor that contracts are reinforced and agents comply with the new economic environment. Fifth, the State has to monitor the impact of the reform on the redistribution of income and productive assets and minimise inequality and anti-competitive behaviour. Sixth, the State has to ensure that the transition occurs orderly and that fundamental political and economic stability are maintained, even under radical changes in patterns of income distribution.

In brief, even if the most liberal economic regime is attained, the role of the State is absolutely fundamental at each stage of reform and to maintain the liberal regime in the future. Thus, liberalisation by no means requires less State or puts lesser demands on the State. What it may do is to change power relations, income distribution and directions of accumulation, as well as the forms by which the State participates in the economic process.

Liberalisation and “efficiency”

Liberalisation, de-regulation and decentralisation, if rigorously pursued, can actually create new, severe problems. First, excessive competition may arise, thus generating new problems of efficiency namely:

- rent seeking;
- increase in social costs and reduction in social benefits of new investment due to incentive competition;

- lowering of private costs and increase in private profits even if social costs increase and social benefits fall;
- incentives may also attract undesirable activities and choices if not guided by policy.

On the other hand, the existing static, factor endowed comparative advantages may not favour economic and technological upgrading and move forward. Liberalisation may not change the pattern of investment, and if it does it tends to return to a resource-based pattern of economic activity that may well: retard economic and technological upgrading, generate environmental problems and worsen industrial relations and labour conditions.

In general, employment, wages, working conditions and industrial relations more generally are the easier to adjust factors due to unbalanced bargaining power between capital and labour, the notion of capital irreversibility and the direction of reform that tends to emphasise the increase of the rate of profits even if productivity does not increase.

Markets versus the State

The obvious conclusion of the author is that development strategy cannot be left to market forces alone, but State intervention is required to shape industrial and economic strategy.

Critical conclusions

The first set of questions I may ask involve: what are market forces, how the State is part of market forces (influences, and is influenced by them) and why one should take for granted that State or market allocation of resources is necessarily better or worse, or corrects for each other's imperfections. To answer these questions requires, one has to discuss the nature of the State and markets, as well as the interaction between the two, in specific conditions. It would also be interesting to specify what one means by "market forces", as these may, in most cases, be reduced to "private enterprises" and the institutional framework under which they operate (which involves the State). The notion of an abstract market that allocates resources is quite different from the notion of a concrete market that results from the interaction of real and concrete economic agents that create and appropriate resources in some sort of competitive context. It is also interesting to discuss how one would define "market imperfections", as this involves a value judgement that gives primacy to a hypothetical set of assumptions about the functioning of markets over the dynamics of real markets.

The second set of questions is related to the analysis and formulation of policy: is policy-making an autarkic process? Why should policy give priority to any specific aspect (ex., improve industrial relations)? Can antagonist aspects (industrial relations and private profit) be successfully and coherently incorporated into the same strategy? How is the focus chosen?

The third set of questions is related with industrialisation itself, and asks whether industrialisation is necessarily a more desirable process and results into a more desirable outcome. To answer these questions, one has to ask two related questions, namely: what is the impact on specific processes of industrial development (what type of industrialisation, gains and losses, who gains and loses); what is the dynamics of the process of industrialisation and which factors mostly influence it; and what are the forces behind a push in any particular direction.