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The role of the State in Economic Development and reflections on Mozambican experiences

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Structure of presentation

- Introduction – on the terms of the debate about the role of the State
- Critique of neo-liberalism and the quest for alternatives
- Mozambican stories of state/capital relationship – the state and the promotion of capitalist accumulation in the era of global financialization of capital
- Conclusions and lessons

Introduction on the terms of the debate about the role of the State

- Critique helps action when it is rigorous and answers questions that "action" wishes to address. If critique is built around myths and spurious relationships, alternatives derived from the critique are likely to be flawed. Hence, we should spend sometime discussing what we want to discuss and how the discuss the role of the state.

- Most common arguments for the role of the State in economic development tend to (i) try to adjust the neo-classical "revolution" of liberalisation, that went too far (this is, introducing some State back in the economy), particularly with respect to the delivery of some "fundamentals" (institutions and reinforcement of institutions); or (ii) present the social justice role of the State through correction of distributional "wrongs" of the market; or (iii) argue for static (coordination and complementarity) and dynamic (learning) role of the State in promoting industrialization; or (iv) introduce the "stabilization" role of State financial policies (fiscal and monetary).

Introduction on the terms of the debate about the role of the State

- These arguments are based on a set of assumptions, of which the following are crucial: (i) development is the result of a set of well defined inputs (capabilities, capacities, means/tools, participatory political practices, right set of institutions, vision, national consensus, and son on); (ii) both the developmental inputs, the choices regarding inputs and processes of combining them into a social development process and the development goals and ends are socially neutral and consensual; (iii) when results differ from expectations, either inputs are missing or there is something wrong with the main public agent, the State (corruption, lack of political will or vision, and so on); (iv) hence, putting these inputs back in corrects the problems; and (v) the (state + civil society) is the required combination of agency to deliver such developmental inputs and visions.
- Furthermore, there are two implicit, if not conscious and explicitly presented, preconceptions that reinforce the above assumptions. First, that the role of the State is to serve the society as a whole, and that deviations from this principle are distortions of the State (hence, the State is an entity, independent of the society and markets). Second, the neo-liberal "revolution" has led to less State (not to a different one and/or to a different type of relationship between State, capital and labour), such that there is some sort of an "unemployed stock" of State (reserve State) that can be mobilized and put back into the economy, at approximately zero marginal costs.

Introduction on the terms of the debate about the role of the State

- Hence, this debate is focused on questions like "what is missing?" and "what can the role of the State be in addressing the missing inputs?" and "what type of State is necessary to address the development needs?" and "what is the right combination of state, civil society, markets, democracy and national consensus that is required?"

- The common answer to these questions is the "developmental State", generally defined as (i) ideological geared towards high growth paths and towards development of the society as a whole and (ii) capable of delivering the required capabilities, capacities and means – this is, autonomous from (not captured by) any specific interest groups (hence, its credibility to represent "the nation" as a a-historical and a-social political entity), in possession of the informational, technical and bureaucratic capacities deemed necessary for the development process (so, capacities needed are also given, and not defined by specific development questions)

Introduction on the terms of the debate about the role of the State

- There are several starting problems with this line of enquiry about the State and its role in development:
  - First, it is the perfect State hypothesis: the opposite of the perfect market hypothesis, but based on the same set of analytical principles and terms (including the a-social and a-historical universality of the principles of the State and of its relationship with society). Hence, in the same way that the "perfect market" hypothesis cannot explain markets, the "perfect State's" cannot explain the State – there is a desirable set of characteristics the State should hold in order for development to occur, but there is no historically specific political process by which these characteristics can, realistically, be built (nor any historically specific logic for which such characteristics may not be built and, instead, others may develop). As with the "perfect market" hypothesis, this leads to a debate centred on the imperfections of the State and how to correct them, without any clearly understood social and political process to do so, and/or any logical reasons by why such "imperfections" may exist within historically specific conditions and may play a role in economic and social transformation (in the same way that "market imperfections", such as economies of scale, public goods, innovation or imperfect information, play crucial roles in industrial development).

Introduction on the terms of the debate about the role of the State

– Second, some of the key “imperfections” of the State are, actually, normal parts of the political life and decision making and of the process of building capabilities and capacities in response to specific social and economic questions. “Political economy” is a way of investigating and explaining relationships and conflicts between agents and social and economic pressures and linkages, which understands the inseparability of economic, social, political and technical dimensions of development processes, and which has specific historical context. Capabilities develop in line with the questions asked through political economy. Trying to remove the “political” from the State, to make the State perfect, is the same as trying to prevent economies of scale in industrialization to avoid market imperfections, or to mummify people to eliminate the unpleasantness of the “imperfection” of being alive and kicking and smelly and moody.

Introduction on the terms of the debate about the role of the State

– Third, this method of investigation starts with an answer based on a set of normative rules (what the "perfect" State should look like), not with questions (where does the State and its goals come from?), and does not lead to the understanding of what exists and why, what are the problems with it, what are the options opened and the implications involved in the decisions regarding options. It is a rather normative approach, which starts with a desirable rule (irrespectively of how realistic it is, what it is desirable for and by whom, and how the rule was identified as desirable in the first place) and then looks at how reality compares to/departs from the rule and can be changed to fit it. The usual solution is to eliminate what cannot be controlled for, the political economy, and in doing so, we end up with a rather sterile, a-historical and unlikely State. This line of research never leads to new questions that my change or question the rule, and usually ends with wishful thinking ("we wish rulers would rule in accordance with the best practice of the developmental State that we can imagine, and which we imagine are the result of lessons from any single case of "success", whatever "success" means").

Introduction on the terms of the debate about the role of the State

– Fourth, the adopted, normative rule is often a simplified attempt to generate an analytical description of one experience or another in a way that produces a blueprint, or engineering map, for successful development. Fundamental dynamic elements with no fixed parameters – such as political economy (for example, where do development goals come from? How capabilities relate to social, economic and political parameters and conflicts?), historical specificity, and so on – cannot be blueprinted. Hence, at best, these elements become footnotes in the engineer manual for state building, and this defeats the goal of learning about social and economic transformation by studying history. For this type of approach, the best State is the a-political State, or, which turns up to be the same, the dead State.

Introduction on the terms of the debate about the role of the State

– Fifth, a key factor in selecting and reproducing the desirable characteristics of the successful State, in order to achieve successful development, is how to define "success" for an a-political State and process of development. There is no a-political definition of developmental success. The very definition of key abilities of the developmental State – the ability to select, set and follow priorities – requires that success cannot be a-politically defined, as otherwise priorities could not be set [unless we resort to meaningless concepts such as the superior interests of the nation, which, despite being meaningless, are still political (as "interests" and "nation" are political concepts)]. Growth, for example, can be attained in many ways, each one of them with different social, economic and political implications for organization of production, extraction, distribution and utilization of surplus. Industrialization may represent a wide range of processes of development, from broad based social and economic transformation to a generalized process of expropriation, impoverishing job creation and formation of extractive economies in the name of developing domestic capitalist classes. Hence, the question of what drives the goals of the State in any particular moment, and how they change, persists and needs a political economy explanation.

Introduction on the terms of the debate about the role of the State

– Sixth, it is unlikely that the goals of the State can be consensually defined between conflicting interests and amidst social differentiation that significantly affect power relations. Interesting contradictions and paradoxes in the literature and debates about the developmental state emerge from comparative stories. For example, while referring to Nordic countries of Europe, developmental state supporters emphasise the democratic, consensual society based on principles of social market (whether this reflects any meaningful description of such societies is a different issue not for discussion here). As the geographic focus of analysis moves towards the South and the East, the developmental State story changes to describe technocratic institutions organized around hegemonic goals that are powerful enough to impose long term goals to society. The paradox is that the democratic State has little developmental content, whilst the developmental State does not look democratic at all. Unless, of course, we separate economics from politics (which is, quite remarkably, impossible). Yet, if democracy is restricted to politics, then long term stability in economic strategizing, deemed necessary for social and economic transformation, can be made consistent with political democracy – insofar as political democracy is restricted to elections and voice, for what kind of democracy is it that no matter who one votes for social and economic directions of development do not change?

Introduction on the terms of the debate about the role of the State

It has been argued with respect to Africa that long term strategies need to be adopted and respected by all parties, no matter who is in power. [Remarkably, it has even been suggested that the long term development is written in the Constitution, such that the strategy cannot be changed at will.] This is very unlikely to happen unless the long term strategy is but a set of general principles all agree with, and leave huge room for manoeuvre – like, for example, eradicating poverty – or a dominant set of hegemonic, social and economic interests dominate both the State and the market such that long term, specific goals can be set. As in many "advanced democracies", like the USA and the UK, parties come and go and economic and social policies generally change little beyond slight adjustments of colour – unless there is a crisis and restructuring of significant dimensions forcing more substantial changes. In these countries, the hegemonic power of financial capital has restricted the options of mainstream parties to the point that democratic/republican or labour/conservative parties differ not substantially as far as economic policy is concerned. Their State serves financial capital and is restricted only by social struggle around processes of adjustment (such as the current austerity(arian) attack on social welfare). There might be slightly different visions about long term sustainability of one or another set of policies and directions – which may push parties in one or another slightly different path – but this does not affect the essential balance of power in favour of global financial capital.

Introduction on the terms of the debate about the role of the State

- We, therefore, need a different framework to talk about the role of the State in development, one that links States with processes of capitalist accumulation, because this is the historical social reality of the world of today. We need to understand States and markets together in their historical specificity and their role in organization of production, extraction, accumulation, distribution and utilization of material surplus. So, we need a political economy of the State, markets and capital, and not a blueprint for building a a-political, a-historical and a-social State (or market). What would that State be useful for, if it could be built, and what would the purpose of such a State be if social differentiation and class struggle related to organization of production, extraction, accumulation, distribution and utilization of surplus did no longer exist or count? So, we need to understand and cope with the "imperfections" of the State, rather than do away with them by theorising a dead State.

Critique of neo-liberalism and the quest for alternatives

- The neo-liberal critique of State intervention, which attributes specific characteristics to the State (and to markets), makes States inadequate to deal efficiently with economic development due to the imperfections of the State [political economy (State capture; predatory State) and limited capacity].

- As the social and economic outputs of neo-liberalism have not been particularly satisfactory to most African countries, particularly from the point of view of social and economic transformation, a critique has emerged that social and economic failure is caused by the failure of neo-liberal State (too little of it). [In a way, there is an inverse reaction, as the power of influence of neo-liberalism emerged from critique of the failures of the "interventionist State" (too much of it).]

- In Africa, given its recent history, two major issues have been raised by the debate on the state of development and of the developmental State: (i) that States are too weak and too influenced by traditional donors; and (ii) the developmental content of State intervention is narrow and limited either by neo-liberal influence of donors or by vested interests of the politicians.

Critique of neo-liberalism and the quest for alternatives

- However, a critique of the neo-liberal critique of State intervention that, having generally accepted the terms of the debate, limits itself to pointing out that neo-liberalism was a reaction too far, is likely to result in flawed adjustments of the neo-liberal “revolution” (by, for example, focusing on the “right” balance of states and markets and some improved ,“developmental” characteristics of the State, fundamentally neo-classical in style by being a-social and a-historical).

Critique of neo-liberalism and the quest for alternatives

- Hence, we need a critique of neo-liberalism allows us to revisit some of the debates about the developmental State, particularly in respect to Africa.
- To start with, none of the “negative” traits attributed to State by the neo-liberal critique of the State is specific to the State; instead, all are part and parcel of capitalist social processes of accumulation.
- More fundamentally, neither States nor markets can be understood if addressed separately from each other and isolated from the social process of accumulation in specific historical conditions, which they are part of.
- We, therefore, can review the propositions that the failure of development and transformation in Africa has been the product of too little State and too powerful donor influence.

Critique of neo-liberalism and the quest for alternatives

- The neo-liberal notion of substitution of the state by markets is a myth. There is subordination of public policy to marketization (commoditization and monetization) generally, and to finance in particular (subordination, not substitution)
  - Ha-Joon Chang – intensive utilization of industrial policy through history (protectionism, subsidies, state complementary investment, selective interventions in markets and technologies), including by the, then, first industrial economy at the time of the industrial revolution. So, capitalism has not developed along neo-liberal lines and principles.
  - Linda Weiss – extent of state intervention in neo-liberal economies is large [regulatory work to impose markets everywhere, expansion of GDP share of public expenditure irrespective of level of marketization of State functions, quasi developmental activities (industrial policy in high technology industries – new *infant* industries – emergence and spread of sovereign wealth funds for stabilization purposes and for pursuing investment policies for selective industries, involvement with finance sector)]
  - Ben Fine – generally, subordination of (state) public social and economic policies to promote markets in general, and financialization in particular. In the period of financialization, the state has strongly intervened to strengthen and rescue the finance sector at the cost of making the state more fragile and incapable of pursuing broader economic and social policies. More generally speaking, the State is part and parcel of the political process by which capitalist accumulation is organized and takes place, privatization and liberalization are carried out, and social and economic adjustments and reforms are decided and implemented to cope with crisis of capital accumulation. The recent massive bailout of the private financial system, combined with a massive attack on social welfare, is the most, current extreme example of this.

Critique of neo-liberalism and the quest for alternatives

Hence, the shortcomings of neo-liberalism in delivering broader social and economic development opportunities and outputs cannot be attributed to “shortage”, or too little, state intervention. Neo-liberalism may have failed to generate broad based development, but was successful at delivering a speculative global economy dominated by finance and the interests of finance everywhere.

So, state intervention can be strong and successful, without delivering broad based social and economic development. Furthermore, the success of the State in delivering whatever goals are defined may undermine its long term sustainability if, for example, it promotes narrow based interests and patterns of development at the cost of squeezing the state and society to breaking points (like in the protection of the financial system or promotion of extractive economies).

So, the problem with neo-liberal economics seems to be less of the degree or intensity of State intervention (as this can be defined and measured in many ways) and more related to options, priorities and directions, i.e., goals. Of course, this immediately raises the question of where the goals come from and what success means, to which we will return later. [And, of course, this eliminates the possibility that the State and State intervention can be a-political and socially neutral]

Critique of neo-liberalism and the quest for alternatives

- *Donorship versus ownership* – donorship is identified as another cause of key problems, as it is associated with political conditionality that, as Ha-Joon Chang puts it, kicks away the ladder. It is true that aid has brought with it political conditionality and ties of neo-liberal and monetarist nature, and many of them were harmful for economic and social transformation. However, we should also consider the following:
  - Conditionality often represented fashions in economic thinking globally (for example, liberalisation of financial markets and of investment promotion frameworks to allow for free circulation of capital), that were harmful for productive/industrial capitalism and favoured finance and speculative capitalism (hence, were harmful for development of industrial economies in general, not only in LDCs, societies in LDCs). Hence, markets and State policies structured/shaped/conditioned each other, as well as defined the outputs. So, there is some "kicking away the ladder" for LDCs, but also for productive capitalism generally, with the exception of the new, high tech industries, commodities and those rare countries, like China, that managed to become hubs for massive relocation of capital and industry. [Interestingly, the international economic crisis has brought to the fore the connections between, and some degree of similarity of some of the economic structural problems in both LDCs and developed capitalist economies (for example, the financing of the state, the unproductive nature of capital accumulation dominated by speculation of finance and mining-energy assets, the narrowing of productive capacities, high unemployment, the decline in real income for workers outside finance, and so on].

Critique of neo-liberalism and the quest for alternatives

– Some of the conditionality were in line with emerging class dominant interests in LDCs, allowing for transfer of assets and power from public to private spheres and promoting an emerging national capitalist class. But the neo-liberal form of capitalism may have narrowed (in some cases, killed) opportunities, concentrated the social basis of accumulation and encouraged speculation and unproductive capital accumulation. LDCs did not industrialize because of the type of capitalism that developed, not because capitalism did not develop. So, international trends, objective domestic class interests trying to emerge as hegemonic and the power of neo-liberal ideology over the state conspired to generate non industrialising capitalism in LDCs and elsewhere.

– Aid also played a fundamental role in keeping emerging, dominant class interest in power, despite fundamental and deep economic and social shortcomings of neo-liberal development. Aid financed social expenditure acted as a mitigating factor against endogenous and radicalized debate over priorities and options, and helped unproductive, narrow based and tax exempt global and domestic capitalist development.

Critique of neo-liberalism and the quest for alternatives

– Over the last decade or so, FDI has surpassed aid, at least in some countries, as the major source of external flows of capital, and private domestic interests are starting to merge with international capital to form a political economy dynamics around extractive economies (driven by external dynamics, incapable of addressing the development of domestic markets and production and circulation of wage goods, narrowly specialized around primary goods and services, porous and structurally unstable). So, aid donors are no longer dominant and hegemonic external players, and aid is becoming, increasingly, a servant, supporter or sponsor of a particular form of extractive or financial capitalism. For example, without aid, the nature of the relationship between host States and domestic capitalist interests and multinationals would have to be fundamentally different, or some of such States would collapse. In this case, aid finances liberal investment frameworks, focused on attracting investment by providing massive facilities to investors at high social and economic costs. In some cases, aid is started to be conditional to business and commercial interests of corporations from the donor country, particularly with respect to access to strategic mining and energy resources and significant construction projects.

Critique of neo-liberalism and the quest for alternatives

– So, it is true that the combination of aid, policy approach and foreign investment have structured and shaped States, markets, opportunities and the type of class interests and class relationships that have developed under specific social systems of accumulation. However, these dynamics are better understood within the study of the mode of accumulation and development of capitalism, as this provides not only a better comprehension of what exists and why, but also a more clear line of argument about options for social and economic transformation.

Critique of neo-liberalism and the quest for alternatives

So, the influence of neo-liberalism is not only an imposition by donors through conditionality. It is also related to trends in global capitalism, emerging and shaping of domestic capitalist classes in a neo-liberal, finance dominated global capitalism and the conflicts over options faced by the State in a fragmented world of domestic interests facing the power of global capitalism.

The substitution of donorship by domestic ownership does not mean an improved, more “developmental”, in broad social and economic terms, state of the State and of the economy. The degree of accountability to donors may fall significantly, as the State becomes more involved in attracting FDI and facilitating domestic private accumulation through links with multinational capital that generate extractive economies. This may mean that States and markets combine to create hegemonic interests that focus the capacity of the State on specific economic goals – like the formation of domestic oligarchies out of the subordination of state policy to large capital and expropriation of the State of its own resources. But which developmental questions, beyond those related to the narrow interests of finance and mining/energy capital, does this mode of development answer?

Mozambican stories of state/capital relationship

- How Mozambique is known: Success story because of high foreign direct investment (FDI); high real per capita growth rates (5.5% per year, on average), sustained over long time (more than a decade); relatively low aggregate inflation (7% or less); significant growth in exports and expectations of even faster growth due to minerals and energy; reduction in absolute poverty (% of population under the poverty line) since the end of the war (from 69% in 1996 to 54% in 2011); and decline in public expenditure dependency of aid (to about 40% in 2012, from more than 60% a decade earlier). Are we in the presence of a fast developing economy, nurtured by a developmental state in the making? A little more data and a few stories may help to shed some light into this debate.

Mozambican stories of state/capital relationship

- How effective is the Mozambican economy at addressing poverty? From 1996 to 2003, the % of the population living under the absolute poverty line reduced from 69% to 54%, according to official statistics (that are strongly disputed). During the same period, official statistics show that real Gross Domestic Product (GDP) per capita increased by a total of 41%. Hence, for each percentage point drop in poverty a real per capita rate of growth of 3% was necessary (slightly above the average of African countries with similar levels of development). From 2003 to 2011, the rate of growth of real GDP per capita increased to an average of 5.5% per year (or an accumulated growth rate of 46%), the Gini Coefficient (which measures nominal distribution of income) was stable, but high (0.42), but the number of poor people increased by two million (accounting for almost all of population growth in the period) and, therefore, poverty did not fall at all. So, not only the elasticity of poverty reduction with respect to income growth is very low, but is reducing significantly as the economy accelerates, despite the fact that inequality in nominal distribution of income did not change.

Mozambican stories of state/capital relationship

- Why is the Mozambican economy ineffective at reducing poverty if the Gini Coefficient is not worsening? Leaving aside contestation about the quality of the data (that affects both sides of the equation) and the comparability of methods of measuring poverty between samples, the question that matters is to clarify how (through which channels) economic growth affects poverty reduction, and how these channels have been working. Five issues are of particular importance:
  - Employment – Mozambique's growth pattern is not labour intensive because it is based on extractive activities (relatively capital intensive, like mining or smelting of aluminium, or extraction of timber) and social expenditure financed by aid.
  - Growth of labour productivity through the economy coupled with job creation – labour produtivity has increased substantially in the narrow based boom areas (mining, energy and extractive agrculture and turism) but withou much job creation.

Mozambican stories of state/capital relationship

- Increase in real purchasing power (not nominal purchasing power) of labour income – this depends on the combination of labour productivity growth and relative prices of wage/basic consumer goods and services (like food, basic domestic fuels, public transports, education, health services, sanitation and housing, for example). The impact on the overall level of poverty depends on the combination of real purchasing power of labour income and the level of job creation. Over the last 15 years or so, the rate of food inflation has exceeded the average rate of inflation by more than 50%, and food, fuels and transport costs have been the dominant triggers of inflation. Since the proportion of income of poorer social groups spent on food and other basic goods and services is as much as 3 times as large as that of the richer groups, then even if the distribution of nominal income does not become more unequal, the distribution of real income (that measures real purchasing power of labour income, or quality of living) becomes more and more skewed against the lower income groups.

  So, the combination of low job creation, narrow based labour productivity growth and relatively high costs for wage or basic consumer goods and services reduce the effectiveness of economic growth to tackle poverty.

  Furthermore, attempts at increasing labour intensity of economic growth without addressing the key issue of supply of cheap food and other basic wage/consumer goods and services will worsen relative inflation ratios of wage to non-wage goods/services, eventually generating enough social pressure to raise nominal salaries (and risk losing jobs, for salary demands to be supported by increased labour productivity) or generating social unrest.

  Without cheap wage goods, massive employment schemes cannot succeed.

Mozambican stories of state/capital relationship

– Ability of the economy to retain and utilize produced surplus to broaden the development basis. Central Bank data shows that on average only 25% or so of the added value of the large and dominant corporations is retained in the country (mostly to pay recurrent, operational costs of the companies); that FDI corporations only reinvest in Mozambique, on average, between 2.5% and 5% of their profits; that the capital balance of the economy improves when profits of the large corporations fall; and that the current account deficit as % of GDP has increased 3 fold over the last couple of years as a result of import demands of accelerated growth associated with its capital intensity and low import substitution capacity of the economy.

Official fiscal data shows that direct taxes are but a small proportion of total tax revenues, and that labour and capital income taxes contribute roughly the same for total tax revenue, despite high levels of poverty (54%), low levels of formal and stable employment (less than 10% of the active population) and high levels of private investment and growth rates. This apparent paradox is explained mostly by the substantial, and largely redundant tax incentives that investment by large companies benefit from.

Finally, data from the international financial integrity and the central bank show that every year, depending on commodity prices, the profitability of the large corporations and the level of tax incentives, total capital flight from Mozambique (licit and illicit) add up to 6%-9% of GDP (roughly the same as the annual average of total, real GDP growth in Mozambique).

It is, therefore, estimated that the rate of growth of real Gross National Product (GNP, or income accruing to the economy) is significantly less than half of that of real GDP (income generated in the economy), depending mostly on the ratio of private transfers to and from the economy.

Mozambican stories of state/capital relationship

– Domestic public debt has increased by an annual average of 43% over the last 10 years or so, increasing from US$ 54 million in 2001 to US$ 830 million by 2012. Debt contracted by the selling of treasury bonds to refinance the State represented, during the period, more than 70% of domestic public debt and was the main determinant of its growth. As % of GDP, domestic public debt increased from 1% in 1999 to 8% in 2012.

  The accelerated and sustained growth of domestic public debt is associated with increasing demands of a fast growing economy on public expenditure, associated with high porosity of the economy (previous slide) and stagnant, if not reducing, real levels of programmatic (budget support) aid flows. Failure to retain, socially, surplus generated in the economy as a result of fiscal incentives, lob job intensity of growth and weak industrial linkages, has forced the State to refinance through domestic public debt.

  The interest cost of domestic public debt as proportion of total interest costs of total public debt increased from 2% in 1999 to 71% in 2012, despite the fact that domestic public debt only represent about 18% of total public debt.

  Hence, economic porosity has affected domestic capital markets via the refinancing of the State in 3 related ways: reducing liquidity (thus, available capital for domestic private investment); increasing the costs of capital for the economy as a whole, or maintaining commercial borrowing interests high and inelastic with respect to declining reference rates of the central bank; and providing a speculative incentive to the private financial sector as a whole.

Mozambican stories of state/capital relationship

- Seen from this new angle and in a little more detail, the Mozambican economy does not look as good as aggregate growth and investment figures suggest.
- So, what is going on? How to explain such apparent paradoxes?

Mozambican stories of state/capital relationship

- Combination of factors: neoclassical/monetarist ideology, focused on controlling inflation, market liberalization and privatization, together with focus of policy on monetary/financial aggregates and away from organization of production + domestic social pressures rising from emerging domestic capitalist classes, historically associated with the political establishment and natural resources or speculation of other assets (financial or quasi productive assets), without experience of organization of production and without finances + aid availability and supporting the budget (and planned according to needs) that reduces pressures and responsibility for domestic resource mobilization + beyond its monetarist agenda, economic policy focused on attracting foreign direct investment (FDI), seen as *panacea* (no domestic monetary pressures, bringing with it finance, markets, technology and knowledge and capabilities/capacities) + the "great discovery" that through ownership of domestic natural resources, one can link emerging and weak domestic capitalist groups and multinationals in a process that requires the expropriation of the State of the benefits from natural resources in favour of private accumulation.

  Emerging, financial oligarchies, rhetorically nationalists, depend on links with international capital: speculation with land and mining/energy/forest/natural tourism related assets; access to share structure/ownership of corporations and high level positions at the board of the companies; engagement with provision of infrastructures and services for such corporations through public private partnerships (PPP) financed by the State (through aid of public debt). Hence, dominant interests by multinational capital and those of expanding domestic oligarchies combine in a way that makes the State servant of large capital.

Mozambican stories of state/capital relationship

- So, an extractive economy emerges:
  - Narrowly based and narrowing:
    - Some 20 companies are responsible for ¾ of economic growth and 4 mining/energy/forest products, including aluminium smelting, generate 85% or so of total exports of goods; every single sector of the economy is dominated by a small number of simple and disarticulated activities.
    - Over the last decade, 50% of all private investment was directly allocated to mining and energy, and 60% of the remaining went into infrastructures and services of support to mining and energy investment [thus making it 80% of all private investment in a decade going into mining & energy directly or indirectly)]. Of the remaining, 55% went into agriculture (11% of total investment), but only 10% of this (or 1% of total private investment) went into food production for the domestic market.[not surprisingly, despite high and sustained rates of economic growth and private investment, food production per capita fell slightly for a decade].
  - Specialised on primary products/commodities for export and the most primary or just final stages of production, thus minimising opportunities, capacities and capabilities to promote linkages.
  - Driven by the dynamics and interest of multinational capital associated with domestic capitalist groups, and not focus on providing the domestic economy with its needs for sustained growth beyond aid (hence, the inability to substitute imports through internal forward and backward linkages, and to provide cheap food and other basic wage/consumer goods and services)
  - Porous and structurally volatile and unstable.

Mozambican stories of state/capital relationship

- Where the role of the State is to attract FDI and facilitate the process of domestic capitalist accumulation through the strengthening of alliances between domestic and multinational capitalist interests. Hence, amongst other activities, the State engages fundamentally in:
  - Announcing the resources available;
  - Looking for FDI by nurturing relationships with foreign States (like China and Brazil) or with large multinationals directly (like Anadarko, Sasol, BHP and others).
  - Provision of highly favourable environment for multinationals (fiscal incentives, accelerated depreciation, amongst others).
  - Organization of large scale expropriation of land as well as displacement and relocation of hundreds and thousands of families.
  - Negotiation of advantages for large domestic capital (for example, access to share ownership of the companies without realizing them financially, in exchange for resources or incentives, fiscal or otherwise)

Mozambican stories of state/capital relationship

- Organization of PPPs, particularly for provision and management of infrastructures and services for the mining-energy complex or construction for middle/high middle classes, as another large business opportunity for domestic capital of the relevant scale, in association with multinational capital (regional companies, Chinese firms, and so on)
- Management of concession and allocation of land between domestic and foreign capitalist.
- Lowering of expectations of local communities and lower income groups with respect to short to medium term development outcomes.
- Development of skills for these particular industries
- Mobilization of domestic public debt to refinance the State, “subsidise” the emergence for business opportunities, generally related to PPPs or to speculation of assets
- Protection of private property rights.

Mozambican stories of state/capital relationship

- Focus of development strategy is two fold: (i) private accumulation by emerging and dominants domestic capitalists groups; (ii) given dependency of such process of accumulation upon links with FDI, products/commodities and resources identified and of the interest of multinational companies become far more important than issues of development and transformation (such as, for example, access to cheap food or diversification and articulation of the productive basis).

- The State and the dominant domestic capital are not particularly interested in the organization of production, at this stage, but rather on accumulating through trade in economic, social and political assets.

- A comparative case between tow industries will show a series of other elements: how a defensive State, not entrepreneurial, can both help to promote or help to destroy industries, depending on the internal structures and degree of hegemonic power of groups within the industrial chain, as well as other pressures, such as those coming form international financial institutions of capital markets, and for global dynamics of specific industries.

Mozambican stories of state/capital relationship

- The Mozambican cashew vs sugar cases – an question of donorship versus developmental state*ism*? Or the role of the State in face of different industrial dynamics of accumulation?
  - Cashew: fragmented industry and conflicting interests along the production chain, none of which was clearly dominant. Unfavourable terms of trade for peasants. No large international capital involved. Changing world market with temporary imbalances resulting from expansion of manufacturing capacity in India and Vietnam. No obvious strategy as there was no obvious dominant interest group. Manufacturing workers were the only group dependent on this industry for a living. Liberalization (removal of barriers for export of raw cashew) took place (arguments of negative international value added of processing due to premium on raw cashew exports and need to increase competition and the peasants share of world prices, which would promote the industry). Liberalisation imposed by the world bank, supported by domestic traders, opposed by industrialist (more rhetoric than reality, as all but one were involved in trade of raw cashew), and no clear alternative of the government, Adopted. Industry disappeared.

Mozambican stories of state/capital relationship

– Sugar: homogeneous industry, oligopolistic, high levels of vertical integration of the production chain. Highly protected world markets. Large international capital involved. Clear and hegemonic interests. World Bank tried to impose liberalisation of imports of sugar. Denied. And more "distortions" were introduced: limits to entry to protect scale and recovery of financial costs, negotiated production and trade by a producers' association in order to protect gains from preferential markets, state involvement in promoting outgrower schemes to integrate domestic capitalists in the sugar industry (not very successful) and to break the organization of trade unions, state support to mechanization and reduction of workers as a response to increasing pressures for industrial action against low pay, seasonal work and awful working conditions, expansion of the industry through lease of land from medium households, with support from the government despite serious implications for food production and sustainability of the current structure of wage work). Industry is booming.

Mozambican stories of state/capital relationship

- The state was as defensive in one case, cashew, as in the other, sugar, in the sense that its actions depended not as much upon a strategic vision but, above all, on the economic and social dynamics associated with the industry and the dominant, prevailing capitalist interests. However, the same method of public policy making – waiting for the industry to decide – could hardly have generates more different outcomes. Can we say that the cashew case was one of a failed State related to donorship and the sugar case one of an emerging developmental state? The cases were negotiated at the same time, by the some delegations, one with support from international private capital and the other not, the government was not particularly entrepreneurial with respect to either industry, was clearly dependent on the dominant groups of each industry, and in the long run did not seem to be particularly interested in the labour force – loss of fifteen thousand jobs in the cashew industry and, years later, agreeing with private capital on a strategy to reduce the labour force in the sugar industry because of increasing social pressures related to working conditions.

Mozambican stories of state/capital relationship

- What the Mozambican stories show is a State that is selective in its interventions, capable of implementing a lot of what they want to, totally dedicated to promoting private investment, economic growth and accelerated private accumulation. The nationalist discourse of the President is that to survive in a global multinational capitalist world one need to build a world class domestic financial oligarchy, that concentrates wealth and resources to deal with FDI in its own terms. The rhetoric goes that these oligarchies represent the interests of the Mozambican society better than multinational companies, because they are Mozambicans. So, public policy is right to focus on fast development of these groups.

Conclusions

- So, to what extent can the Mozambican case be identified as a potential developmental state? It is focus on economic growth and private capital accumulation, has pursued these goals ruthlessly, and does not care much for the critics. Obviously has some capacities, and are developing, but is not autonomous from specific class interests and conditions of accumulation and is not promoting broad based industrialization.
- However, which is the State that is autonomous from specific class interests and conditions of accumulation? In the current stage of financialization of global capitalism, who is developing broad based industrialization and why?

Conclusions

- The above discussion raises questions about how we define and measure success. Often, success is measured uncritically as a combination of strict economic concepts that reflect the focus of the Washington consensus (aggregate economic growth, export growth and aggregate inflation) with some kind of human face (various measures of poverty reduction, gendered poverty, children focused poverty, food security, employment promotion, environment and so on). We are far more likely and more willing to discuss the value of state promotion of infant industries and of state promoted domestic private sector than we are of discussing the implications of such strategies in terms of changes in social (class) structures, dynamics, struggle, distribution and power. Hence, we may fail to understand specific historical dynamics of social change that may or may not lead to industrial development and industrialization, besides state intervention through protection, subsidies or complementary investment, and may be short of understanding the actual links between the mode of accumulation, employment and welfare. And we may forget to remember the links with foreing capital that promote domestic capital, and also struggle with it.

Conclusions

- We may need to focus on the social, economic and political conditions that influence policy debate, priorities and options in one direction or another, and how to make sure that progressive developmental interests are coherently articulated politically and become more influential and acquire more ownership of the policy decision making and implementation.
- If we need a developmental State, we are certainly not going to find one with the abstract characteristics of social markets or benevolent authoritarianism. States are social constructions, embedded in political economy and political struggle about the economy, that also structure and are structured by the market.
- So, maybe we don't need a "developmental" State, after all. In other words, maybe we need progressive developmental class struggle about the State, the economy, the citizenship and its rights.

- Thank you!