

# Developing Countries' Experience with Neoliberalism and Globalisation

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## Abstract

This study analysis developing country's experiences of the last three decades after many of these countries had adopted neoliberal economic policies. An attempt is being made to study their achievements in terms of reducing poverty and unemployment. Also explores neoliberalism and globalisation and its impact on the process and development of democracy in developing countries in the present framework of global capitalism.

I find that despite the disastrous experiences of neoliberal polices, especially in Latin American and African countries, still the international institutions are imposing these policies on the developing countries. It seems that little lesson has been learned from the past. There is a gap in the literature regarding the critical analysis of these polices. In recent years a number of Latin American countries have abandoned neoliberalism and adopted polices to be suitable to their national interests rather than foreign capital. I intend to examine these developments in details. We will briefly analyse the international financial institutions policies such as IMF and World Bank and their close co-operation with World Trade Organisation (WTO).

Neoliberal versions of the 'globalisation' thesis are challenged, and it is argued that national-level economic process remains central and that the international economy is far from ungovernable. The study also examines India's recent experiences of neoliberal policies, while in contrast to that Ecuador's attempt to opt out of neoliberal policies and chart out new economic policies aimed towards more national economic control of resources and with active state intervention in favour of under privileged classes in the country.

**Keywords:** *Neoliberalism; democracy; globalisation; IMF/World Bank and developing countries*

## Introduction

This article explores neoliberalism and globalisation and its impact on the process and development of democracy in developing countries in the present framework of global capitalism. Neoliberalism was launched in the late 1970s as a response by political elites to the threat posed by the growing strength of organised labour in developed countries and the drive for a more autonomous post-colonial development path in the developing countries. In the former case, the rise of unemployment meant that wage increase was halted and pressure was extended by the tariff reductions and liberalisation of capital flows. In the latter case, the success of OPEC from 1973 in repatriating a growing proportion of oil surplus exemplified the wider drive towards national control of resources.

On the view of the genesis of neoliberalism, there is an asymmetry in the respective accounts for developed and developing countries. In the late 1970s, in the former case even mainstream approaches took for granted that the politics of economic management centred on the conflict between capital and labour (Hoogvelt, 2001). It is of course a long way from such experiments, often undertaken in conditions of acute social difficulty, to a sustained mass movement of opposition to neoliberal capitalism. Once people seek to extend such initiatives beyond the 'hidden abode', they necessarily confront not only the active opposition of property, but the inertia of social convention. This has been apparent, for example, the factory seizures and other grassroots initiatives in Argentina, which flourished in 2002-03, but lost momentum during the fragile but rapid economic recovery under the Kirchners' neoliberal policies.

Historically, the neoliberalism gained inspiration from the so-called liberal world order of the period 1870-1913 (Hayek, 1944). They wanted to establish the unregulated financial globalization, which was witnessed between 1870 and 1913. During this period London acted as the centre of financial activity and the pound sterling was used for settling of financial transactions. This period is often referred to as the early stage of the development of international financial institutions. From around 1870 the Western powers took control of military weaker countries and economically subordinated them for their own interests. Moreover, this period was marred by a series of banking crises due to speculation and excessive lending (Kotz, 2008).

I find that despite the disastrous experiences of neoliberal policies, especially in Latin American and African countries, still the international institutions are imposing these policies. It seems that little lesson has been drawn from the past. There is a gap in the literature regarding the critical analysis of these policies. And also policy options are required. In recent years a number of Latin American countries have abandoned neoliberalism and adopted policies to be suitable to their national interests rather than foreign capital. The study intends to examine these developments. We will briefly analyse the international financial institutions policies such as IMF and World Bank and their close co-operation between World Trade Organisation (WTO). It appears that the IMF\World Bank to strengthen the interests of MNCs (multinational corporations) and international financial capital, rather than long-term commitment to democracy and prosperity in the developing countries.

Under the pretext of democracy, it is being ignored the fact that those who decide are not those affected by the decisions. In fact, the decision makers i.e. the ruling elites, who enjoy the freedom reinforced by the control of property, are today big financiers' billionaires who staunchly defend capitalism and influence policies in countries that are their debtors.

This article focuses on globalisation and its relationship between nation-states on the one hand and the IMF and World Bank on the other. It argues that international agreements between states are important in establishing the power of the state over society. Neoliberal versions of the 'globalisation' thesis are then challenged, and it is argued that national-level economic process remains central and that the international economy is far from ungovernable.

Regarding the developed countries, for example, on the question of current political and economic crisis in UK, George Monbiot (2009) argues that the current political crisis, for instance, facing the British government experiencing crises because its economic system can no longer extract wealth from other countries. He says that, "the British adventure-three centuries spent pillaging the labour, wealth, resources of other countries-is over" (Monbiot, 2009). He also points out the vulnerability of British capitalism to external financial shocks, given its dependence on the earnings from the vast overseas assets and particularly its banking sector.

The article is arranged as follows: first is an introduction, and second includes a review and discussion of neo-liberalism. Third, the globalisation issues are analysed. Fourth, the issues of free trade are examined in a historical context. Finally, India's experience of neoliberal policy and also alternative policy options launched by some Latin American countries are examined.

In the developed countries for the last two decades the financial sector contribution increased relative to other sectors of the economy. With the globalisation the financial sector increased their reliance in trading financial items and ready to sell new products. The finance became global in response to global business demand. Globalisation has gone hand-in-hand with financialisation.

The massively increased role of financial capital, increasing speculation, and the ever expanding credit bubble built on a relatively declining productive base, especially in manufacturing sector, were the result of the over-accumulation of capital in the developed countries. Financialisation is the product of a crisis of profitability i.e. lack of profitable investment opportunities for capital. The expansion of the financial sector does not produce additional value but appropriates a greater proportion of value produced by the productive sectors of the economies. As financial capital flowed between countries in search of speculative gains, many countries witnessed instability and jobless growth (Patnaik, 2006).

## **The Neoliberalism**

For nearly three decades, the neoliberalism has become a dominant ideology in the

developed countries. The pro-market economic reforms are carried out on the name of efficiency and growth, such as privatization, deregulation and labour and financial reforms. Kirman (1998) emphasises that the dominant conception of economic theory today is guided by neoliberalism, where economics is seen as a study of rational choice. People are assumed to make rational decisions across range of choices at market places. The neo-liberalism is supposed to free market forces and encourage private enterprise, consumer choice, and reward entrepreneurship. Milton Friedman, the champion of free-market model, argues profit making is the essence of democracy, any government that pursues anti-market policies is being anti-democratic, no matter how much popular support they have got. Therefore, the government job is to protect private property and enforce contract (Friedman, 1970). Another supporter of neoliberal economic policy, namely Martin Wolf (2009) summarises: “In the West, the pro-market ideology of the past three decades was a reaction to the perceived failure of mixed economy, Keynesian model of the 1950s, 1960s and 1970s. the move to the market was associated with the election of Reagan as US president in the 1980 and the ascent to the British prime ministership of Margaret Thatcher the year before” (Wolf, 2009: 6). In the developed countries the macroeconomic consensus had been in favour of a separation of responsibility for the monetary and fiscal policy. Independent central banks were supposed to control inflation. For the last three decades, neoclassical theory (i.e. neoliberalism) has been strongly recommended to the developing countries, which means following aggressively pro-capitalist policies.

During the late 1970s inflation and unemployment rose together to much higher levels, unknown in previous decades among the developed countries. These developments questioned Keynesian demand management to regulate capitalism. The Keynesian model supports nation-state economic policies. The rate of interests on borrowing increased during the 1980s and combined with the economic recession and low export demands in the developed countries, which exacerbated the developing countries debt crisis. These policies were supposed to free market forces and reduce the role of state in the economy, making economy more flexible and dynamic (Olsen, 1982).

The neoliberal argues that the growing instability in the world economy is due too much regulation and government intervention (World Bank, 2006), while critiques have argued that East Asian crisis in 1996 was attributed to the deregulation of national financial systems. In the absence of regulation excessive lending was generated to the region by Western Banks (Wade and Veneroso, 1998). Wade (1990) and Amsden (2003) found that East Asian miracle owed more to extensive and well co-ordinated state support rather than ‘free market’ policies as claimed by the World Bank (Chang and Evans, 2005; Siddiqui, 2012).

The proponents of ‘neo-liberalism’ claim that people are best served by market freedom and little intervention by the state. The role of government should be confined to creating and defending markets (World Bank, 1993 and also 1994; Williamson, 1975). All other functions are better discharged by private enterprise, which will be prompted by the profit motive to supply goods and services. Adam Smith in his book *The Wealth of Nations (1776)* argues that if people rationally pursue their own economic interests in free markets they will exhaust all mutually beneficial opportunities to produce goods and exchange with one another.

According to him such exhaustion of opportunities for mutually beneficial trade results in full employment. Some workers will be unemployed because they are in a temporary search for another job or they insist on higher pay. In the classical liberal model both factors of production i.e. labour and capital needed to be mobile in order to achieve higher efficiency and growth. However, during the current globalisation drive, despite some mobility in high skilled labour force, labour mobility is highly restricted between nations, while capital mobility has increased enormously.

Neo-liberalism also entails expenditure deflating policy package at the macroeconomic levels (Harvey 2005). For example, India's external debt crisis of 1991 brought the country close to default in meeting its international payment obligations. Under such circumstances India adopted neo-liberal also known as 'market-friendly' economic policies (Siddiqui, 2010; Budhoo, 1994). Moreover, in India the adoption of neoliberalism is accompanied by a change in the position of big bourgeoisie. After the independence it asserted for relative autonomy, although not always consistent. However, since 1991, the Indian bourgeoisies increasingly getting integrated with the international financial capital and seeks strategic alliances with western capital (Wolf, 2006).

However, the neo-liberal market reforms are not new. The World Bank and IMF have already applied such measures in Latin America and Sub-Saharan African countries in response to the debt crisis in the 1980s (Siddiqui, 1998; Ocampo and Taylor, 1998). The past decades of the neoliberal policies have been witnessed by slower growth, greater trade imbalances and deteriorating social and economic conditions in most of the developing countries. The UNCTAD reports that, "for developing countries as a whole (excluding China), the average trade deficit in the 1990s is higher than in the 1970s by almost 3 percentage points of GDP, while the average growth rate is lower by 2 percent per annum" (UNCTAD, 1999: vi). Another study namely by Mark Weisbrot et al (2005) found that, "contrary to popular belief, the past twenty five years (1980-2005) have seen a slower rate of economic growth and reduced progress on social indicators for the vast majority of low and middle income countries (compared with the prior two decades)" (Weisbrot et al, 2005:1).

The ideas of neoliberalism is usually regarded as a modern variant of classical economic liberalism seen as centred on a belief in the self-regulating capacity of the market and relies on the need to restrict the scope of the state in the economic affairs. During the transition from feudalism to industrial capitalism also coincided with the political change from 'absolutism' to 'constitutional democracy' (Anderson, 1975) which seems to be closely connected to the economic move from the remaining feudal restrictions on property rights to the increased use of money and commodification of labour (Harvey, 2005).

Karl Polanyi (1944) argued that the Industrial Revolution in England of the late 18<sup>th</sup> century took place within a thoroughly commercial though not yet thoroughly market organized economy. He notes: "Markets were places or networks in which goods were bought and sold. They were human interactions organized by price and quality of traded goods and services. During this period the economies of much of Western Europe, including England had been quite thoroughly commercialized. The agricultural labour paid in money

wages and used that money to buy other products. Control and regulation of markets by governments was also common. Toward the end of the 18<sup>th</sup> century, and in early 19<sup>th</sup> century the rapidly expanding factory system altered the relationship between commerce and industry. Production now involved large-scale investment of funds". (Polanyi, 1944:135) Polanyi described how, "in spite of the threat to social order, the philosophy that came to be called "laissez faire" was born as a mere penchant for non-bureaucratic methods [and] evolved into a veritable faith in man's secular salvation through a self-regulating market" (Polanyi, 1944:135). He provides examples of state intervention in Britain such as the *enclosures* of the 1790s, the *Poor Law Reform* of 1834, the *Bank Charter Act* of 1844 and the repeal of the *Corn Laws* in 1846.

The neoliberal policies are based on neo-classical model, which relies on general equilibrium theory. This theory argues that when every buyer and seller in the market place acts out of self-interest competition will produce a unique set of prices and quantities that will create a perfect match between the supply and demand of every good and services and every input used in the production (Williamson, 1975). It is claimed that once "equilibrium" of price and quantities is reached, welfare will be as high as it can possibly be, in that sense that no individual will be able to be better off without making someone else worse off. However, general equilibrium model is heavily mathematical and relies on unrealistic assumptions. People are assumed to make rational decisions across the entire range of human choices, including but not limited to market transactions (Williamson, 1975).

It is said that during the last two decades the dramatic changes have taken place in sphere of communications and transport, which have made it clear that there is no way out but to accept the Anglo-American model of 'free market' (i.e. neoliberal policies) in order to integrate all national economies into one global economy to facilitate free flow of goods and capital. The society is supposed to be subordinated to the logic of the market. Karl Polanyi (1944) explains: "It means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organised in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws" (Polanyi, 1944:57).

It seems that the neo-liberal model does not provide any empirical evidence, but a religious faith in the infallibility of the unregulated market, which draws upon 19<sup>th</sup> century abstract theories that have little evidence with actual world. The MNCs are now regarded as key agent of development. It is said that MNCs will provide capital also known as FDI, advance technology and modern management skills along with distribution network to export in global markets contributing to the higher growth and job creation. There is no doubt that we could find examples of some East-Asian countries, who have successfully managed to modernise their economies. For example, Singapore had managed to prosper and took advantage from MNCs. We should not ignore that the government while welcoming foreign investors, did not take a laissez-faire attitude to MNCs rather it consciously directed foreign capital into strategic sectors. Another example of South Korea's and Taiwan's attempt to



modernise their economy in recent decades. The most important policies measure employed by South Korea and Taiwan were restriction on entry and ownership of foreign businesses. For example, those foreign investors investing in modern technologies (e.g. synthetic fibres, petroleum refinery) and labour intensive export industries producing for export markets were encouraged. Foreign ownership above 50 % was prohibited except where FDI was strategically considered important. As a result by 1985 only 5 % of the MNCs subsidiaries in South Korea were wholly owned companies, while 50 % in Mexico and 60 % in Brazil (Evans, 1987; Siddiqui, 1990; Wade, 1990).

Contrary to the claim made by the neoliberal model, we find that the markets are seldom competitive. Take examples of developed economies, the markets are dominated by massive corporations with too much control over the markets. Thus they face little competition, totally opposite to what described in economics textbooks. Also this theory fails to take into account that profits are key motive for production and it may be that capitalists could produce what really people wants but also what the producers think they want. If it can do so profitably they will produce what they think mistakenly people want (Williams, 1964).

### **The Globalisation Debate**

To start, globalisation as commonly discussed refers to the explosive growth in the past three decades of global corporations with vast pool of capital that have penetrated in large number of countries. Globalisation is defined as a process through which increased levels of contacts are being made in economic, social and cultural areas between different countries. This appears to be very similar to ‘internationalisation’. As Hirst and Thompson (1996) have defined in the world each national economy may lead towards into a single integrated global economy. The term ‘globalisation’ is described as a process of integration into the world economy. It is based on a strategy of development through a rapid integration with the world economy.

These policies of globalisation rely largely on trade, MNCs, foreign investment and international finance. It is seen as a process linked with greater economic openness, increased role of market forces and closer economic integration with the global economy (Stiglitz, 2002; Siddiqui 2008; Rodrik 1997). While others argue that it also has reinforced existing inequalities and created new barriers. Stiglitz (2002) has argued that in some respect globalisation works against the interest of developing countries and at the same time re-enforcing global inequalities. He is not opposed to globalisation and sees it as inevitable. According to him, the state may have retreated from the direct role in production, but still serve to regulate competing capitals, especially in realm of conflicts between states. Globalization is being used to open up markets further in the developing countries for MNCs and the finance liberalisation has been an important component of this process. Financial liberalisation means free movement of finance across the national boundaries, which appears to be the vital part of the current globalisation drive.

Since mid-1980s the economic power and activities of MNCs have accelerated in terms

of investment and economic integration (Girdner and Siddiqui, 2008). The current globalisation is the result of two key factors namely – technological and political. Firstly, the rapid growths of electronic communications have made it possible for top managers to oversee the businesses operating in many countries at the same time. Technology has made all these tasks possible at very low operating costs. Secondly, the governments have dismantled national control and regulation on capital movements, and profit remunerations. This was a political decision to do away with the legal and administrative legislations that might have protected local economies (Hoogvelt, 2001).

It seems that the proponents of globalisation aim to create universal ‘free market’ capitalism in which the state is ‘rolled back’ to the limited functions. For the last three decades, the Anglo-Saxon neoliberal model has been projected as a successful model to be followed due to fall of Soviet Union. Globalisation has now become most widely used term of international institutions. The tendency of capital towards concentration and centralisation is the basic law of capitalism leading to the growth of monopolies and cartels. These big corporations also known as MNCs are the central force behind call for globalisation. The number of MNCs, according to UNCTAD (2005), has shot up from 7,000 to 37,000 in the past two decades, and their direct foreign investment (FDI) today amounts to US \$ 2 trillion. Of this, however, only about a hundred top MNCs or about 0.003 % of the total number of MNCs, account for US \$ 660 billion or about one-third of the total FDI for all the MNCs. About one-third of the world exports in goods and non-factor services today take the form of intra-firm trade between the parent firm and their foreign affiliates (UNCTAD, 2005).

The availability of cheap labour and natural resources along with the little control for environmental pollution in the developing countries have persuaded the MNCs to shift some investment allocation to the latter. The other point is that MNCs are building up integrated multi-tier networks embracing parent firms, their foreign affiliates, through sub-contract, and firms tied together through alliances. These networks include all major corporate functions, such as research and development, manufacturing, marketing, finance and so on. Moreover, the powers of these top MNCs have become much more consolidated by their closer alliance with the international banks.

The current phase of capitalism is marked by the dominance of financial or rentier interests and fluidity of finance across national borders. This certainly has undermined the ‘state control’ policies of nation-states. This has had the effect of producing greater unity in the developed countries, but greater disunity in the developing countries with growing tendencies towards separatism, divisiveness and disintegration. We are not saying that rivalry among the capitalist powers along national lines has disappeared or that conflicts among the national capitals of the metropolitan powers have become non-existent; but since no capitalist power can cordon itself off in a world in which finance is highly mobile. Under current situation, their national conflicts have been sidelined. Moreover, with the emergence of the phenomenon of highly mobile international finance, they have reached a new level of unity.

With the collapse of Soviet Union, for example, the Indian ruling elites far from continuing to assert its identity and independence *vis-a-vis* dominant centres of power in



co-operation with other countries of the south, they are integrating into a 'world order' that is being designed in western think tanks such as Rand Corporation (Bello, 2005; Siddiqui, 1991). It is presented in terms of integration into the world market, assuming that economic integration need not lead to political dependency or social and cultural absorption. It seems to be deceptive-the general consequence of such integration is a clear loss of autonomy. Incidentally, in regard to the needs of authority of the state under a regime of liberalisation is important. It seems that the state need not to lose its autonomy everywhere as a necessary prerequisite of the move towards globalisation. For instance, we witnessed in South Korea, Taiwan, Singapore, Japan, and more recently in China, is that the state and market reinforce each other under the domination of an elite system that both makes use of MNCs and succeeds in undermining dissent in the political sphere and institution of civil society. The interdependence between state and business for instance in Japan is known to have helped the evolution of modern industries rather than hampered it (Johnson, 1982).

However, on the question of increased reliance of MNCs and foreign investment earlier Sunkel (1973) had warned earlier that once these investments become central to development strategy, they serve to the local capitalists, politicians, bureaucrats and to the economic interest of the parent of foreign investors. This is reinforced by IMF and World Bank led 'structural adjustment programmes'. For the last three decades economies have become significantly more globally integrated, as a result national governments have got much less autonomy in the economic policy decision making. Moreover, globalisation is giving more importance to the processes of world accumulation than to distribution and dispersal of economic and technological resources across regions and classes. More and more capital and technology are being concentrated into fewer hands in the developed countries, while the developing countries are increasingly dependent on foreign investment, 'aid', and modern technology. All these external factors are producing powerful internal effects in most of the developing countries societies, namely centralisation of governing structures, widening the gap between rich and poor within the developing countries, and also destruction of traditional resources and sources of knowledge and techniques.

After the independent, the formal political independence did not change much in the ex-colonial countries locked into the traditional primary producer role in the international division of labour. Some countries adopted radical policies, which often challenged the power foreign corporations through nationalisation, economic planning, and discriminatory monetary, fiscal and trade policies. However, during the 1980s problems of external debts forced many developing countries to shift towards so-called export-orientation industrialisation. Furthermore, the debt crisis provided an opportunity for an increased pressure through IMF, World Bank and WTO to open up their markets for foreign capital.

Keith Griffin (2003) says global inequality and poverty continue to rise because of lack of international effective institution. According to him, negative impact of globalisation is mainly due to the absence of international body to 'govern' the global market forces, is the main cause of failure. He means a closely integrated global economy would benefit all participants. As a consequence of this asymmetric globalisation rich and powerful nations are claiming the benefits. The low income countries are placed at a disadvantage positions due to

trade discrimination against their exports and moreover, restrictions on the cross-border movement of their workers, particularly less educated workforce. Griffin suggests that reforms are needed in global economic governance, which will benefit the poor countries. His reform proposals include ‘greater globalisation, not less, is desirable’ (Griffin, 2003: 793) for wellbeing of the poor countries.

We disagree with Griffin’s arguments because ‘greater globalisation’, as long it is based on neoliberal policies and the big corporation’s interest, it is going to be another pervious examples where European business prospered in the name of ‘internationalisation’ and colonisation and subjugation followed by massive de-industrialisation in the colonies during the 19<sup>th</sup> century (Baran, 1957; Siddiqui, 1996). It appears that Griffin analysis is based on, implicitly, neo-classical Pigou’s model of welfare economics. This model illustrate that (in principle) a perfectly competitive market system, when left to itself and undisturbed by government intervention, produces an efficient allocation of resources and maximise consumers welfare, provided tastes, technology, and consumers behaviour remains unchanged. However, in theory it looks fine, but in real world market is imperfect and the information is asymmetrical. The unregulated markets do not produce efficient outcome. Therefore, due to the externalities government intervention becomes crucial to improve market efficiency and equity (Ocampo and Taylor, 1998).

### **Free Trade Debate**

The World Bank (2002) has claimed that “faster integration lowering barriers to merchandise trade would increase growth and provide some \$1.5 trillion of additional cumulative income to developing countries over the period of 2005-2015. Liberalization of services in developing countries could provide even greater gains – perhaps as much as four times larger than this amount. Also claimed that the labour’s share of national income would rise throughout the developing countries” (World Bank, 2002: xiii). The international organisations such as the World Bank, IMF and WTO defend their efforts to expand international trade and globalisation process, as necessary to ensure higher growth to remove people living in poverty, particularly in the developing countries. For instance, Mr. Ruggiero, the first Director General of WTO has said that WTO trade liberalisation policies have “the potential for eradicating global poverty in the early part of the next (21<sup>st</sup>) century – a utopian notion even few decades ago, but a real possibility today” (Quoted in Chang, 2003: 15). Similarly William Cline (2005) claims that “if all barriers were eliminated, approximately 500 million people could be lifted out of poverty over 15 years...The current Doha Round of multilateral trade negotiations in the world Trade Organization provides the best single chance for the international community to achieve these gains” (Cline, 2005: 22).

Free trade and constitutes a crucial component of the neoliberalism and subsidies are not supposed to be provided to the exporters. However, in 1945, the US business leaders expected the economy would collapse without the massive state intervention. While, currently in the developing countries aggressive anti-public sector policies are recommended such as: privatisation; imposing wage austerity; and trade and capital liberalisation. At global

levels free trade was promoted by dismantling protectionism. These policies were fully supported by IMF, World Bank and WTO. However, trade liberalization has initiated to the de-industrialization of many developing countries, thereby increasing their import dependence leading towards trade imbalances.

After independence most developing countries pursued state directed import-substitution industrialisation (ISI) strategies and financed their trade deficit with loans from international financial institutions. The ISI often involved state regulation of foreign trade and investment. Such strategies witnessed crisis when the United States and other developed countries experienced economic crisis in the 1980s leading towards rising interest rates and economic recession. The developing countries borrowing costs soared, while export earnings plummeted, leading towards “debt crisis” (Amin, 1976; Budhoo, 1994). By the end of 1980s about seventy of the developing countries were forced to accept the IMF led ‘structural adjustment programme’ which is based on neoliberal theories (Bello, 2005). They were advised to adopt neoliberal policies of de-regulation in capital and trade, which was supposed to boost their exports. This also coincided with the development of new technologies, which had made it possible for MNCs to cut down production costs by geographically dividing their production process. As a result, the share of developing countries exports of manufactured goods increased from less than 5 % in the late 1970s to 30.1 % by 2003 (UNCTAD, 2005:31).

The proponents of neoliberal policies claimed that recent increase in the exports of manufactured goods showed the benefits of trade liberalisation. However, it was limited to a handful of developing countries such as China and few other East Asian countries. Moreover, such arguments ignore that pursuing neoliberal policies have contributed little to bring down unemployment and inequality in the developing countries. And also these developments did not help the countries to chart out independent path of industrialisation and the developing countries became more dependent on both western markets and MNCs. The failure of these policies are analysed by many researchers. For example, during 1980-2005, most of the Latin American (Siddiqui, 1998) and Sub-Saharan countries (Kotz, 2008; Siddiqui, 1992) continued to import more than they exported, resulting ever growing trade deficits that forced them to cut down drastically fiscal spending, which adversely affected overall growth (Budhoo, 1994).

The supporters of infant industry argument are giving economic reason for protectionism. The argument is that infant industries often do not have the economies of scale that their older competitors from the developed countries may have, and thus need to be protected (Hamilton, 1791; List, 1883; Gerschenkron, 1962). This argument was put forward by Alexander Hamilton in 1791 in the United States and later in Germany by Friedrich List in 1841, to support protection for German manufacturing against British industry. It is argued that protectionism allows an industry to develop until it is able to compete in international trade. History provides numerous examples of the benefits of protecting infant industries. For instance, in the 1830s the average tariff of the USA was 40%, the highest in the world, allowing the development of manufacturing industries until 1940s. More recently in 1939 Japan kicked out General Motors to protect Toyota which at the time was uncompetitive in the global market (Johnson, 1982).

## The Policy of State Intervention

On the question of the state intervention, the neoliberal theorists clearly support the view that state should have minimum interference in the market. Hayek (1949) says that state intervention in an economy will fail due to rigidities and transformational costs (Hayek, 1949; Friedman, 1970; World Bank, 1993). We need to understand the relationship between the state and the market, which are overlooked by neoliberal theorists. There is abundance of empirical evidence, which shows that state's active intervention to support developmental measures. For example, German economist Friedrich List concluded that successive British government; "perceived that their newly established native manufacturers could never hope to succeed in free competition with the old and long established manufacturers of foreigners (the Italians, the Belgians and the Dutch). Hence, they sought, by system of privileges, and encouragements, to transplant to their native soil the wealth, the talents and the sprit of enterprise of foreigners (List, 1983: 111).

List findings were also confirmed by another economic historian more recently namely by Bairoch (1993) who commented that "there is no doubt that the economic liberalism imposed on the developing countries in the nineteenth century is one of the main factors that explains its delayed industrialisation...It would be difficult to find factual examples – at least in the nineteenth century economic history – that are in more flagrant contradiction with the dominant theory, which holds that protectionism has a negative impact. Protectionism, if not a source of industrialisation, and economic development, but has always accompanied them" (Bairoch, 1993: 81). The United States business history and its basic structure violate the neoliberal theory. The main theme of US business history is that according to Chandler (1977) modern business enterprise took the place of market mechanism in coordinating the activities of the economy and allocating its resources, handling many transactions internally, and another large departure from market principles (Chandler, 1977).

During the early post-war year period, the state in West European countries acquired new role of overlooking the economy. The old policy of balancing the budget at all costs was abandoned and state acquired new role of coordinating investments and savings to boost the economy at full employment level. The success of war time planning led to further coordination of economic activities. For instance, France and Japan state took active policy measures to coordinate centralised investment in five year planning (Cohen, 1977; Johnson, 1982). The Scandinavian countries undertook the policy in a 'social corporatist framework' where wage bargaining policy were persisted to give way towards high productivity in certain sectors, which would have not been possible through market means alone.

It is said that the risk taking entrepreneurial drives technological innovation and industrial advancement. And any attempt by the state to regulate is a recipe for disaster. This notion has been recently criticised by Mariana Mazzucato (2011), who found that even in the United States, the public sector has taken the risk to invest in one cutting edge sector after another: from aviation, nuclear energy and computers to internet, biotechnology and nanotechnology (Mazzucato, 2011). Will Hutton (1995) argues that in the 1930s the British government turned to more direct intervention into the domestic economy and the output of

machines and tools increased five times along with a boom in chemicals, steel, aerospace etc. According to Hutton (1995), the state controlled industry enabled Britain to out produce Germany during the war, and even to narrow the gap with the United States which was then witnessing a dramatic economic expansion of modern industries as the private owners took over the state coordinated war time economy (Hutton, 1995). For example, Marshall Plan aid was tied to purchase of US agricultural products, part of the reason why the United States share in the world trade in grain increased from nearly 10 % before the First World War to about 52 % by 1950, while Argentina export of agricultural products reduced by two-third during the same period. The US food aid later in the 1960s such as PL480 was used to subsidize US agro-business to undermine competitors.

Colombia for instance, witnessed virtual destruction of agriculture sector, particularly wheat production by such means, which is one of the factors in the growth of drug industry. When Britain emerged as Europe's most powerful and advanced trading and military with sharp rise in public spending and state became the largest single actor in the economy. Only then Britain did finally turn to neoliberalism in 1846 after more than one hundred and fifty years of protectionism, violence and conquest (Girdner and Siddiqui, 2008). The active state involvement then placed the country far ahead of any other competitor. About 40 % of the British textiles were exported to colonized India and colonies became the most profitable markets for British exports in general.

The government intervention, which has been rule rather than exception over the past century, has played an important role in the development and diffusion of many product and process innovations particularly in aerospace, electronics, energy, computer technology etc. The state has always played an important role in the development of capitalism in the West. Even on the so-called laissez faire capitalism, which is supposed to have been existed prior to state intervention, was in fact based on state intervention (Chang and Evans, 2005).

The question arises what were the sources of primitive accumulation for the development of capitalism in the West?

Marx found two sets of process which led to primitive accumulation in England, the first country to successfully develop modern industrialisation. First, there was the expropriation of domestic peasantry during the 18<sup>th</sup> century through enclosures. The second was wealth forcibly taken from the colonies as summarised by Marx: "The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal population; the beginning of the conquest and looting of East Indies, the turning of Africa into a warren for the commercial hunting of black-skins, signaled the rosy dawn of the era of capitalist production. These idyllic proceedings are the chief momenta of primitive accumulation" (Marx, 1981: 776) Between 1493 and 1700 Spain forcibly expropriated about 51, 000 metric tons of silver from its colonies in South America, constituting as much as 81 % of the total world production over the period (Barrett 1990: 225). This hugely increased the purchasing power of West European countries in international trade, including Britain (Barrett, 1990).

Trans-Atlantic slave trade also provided huge surplus: by 1700 as many as 1.5 million



African slaves had been transported across to Americas. But in the 18<sup>th</sup> century, which also coincided with rapid industrialisation in England, over 6 million slaves were transported (Williams, 1964). The industrial revolution in England, for example, depended on supply of cheap raw cotton, which was secured earlier from the India and later from slave produced southern states in the United States, just as the “golden age” of contemporary capitalism has depended on cheap oil supply from the Arab countries. The methods of keeping the crucial commodities cheap and uninterrupted reliable supply hardly conform to so-called “free-market” principles (Bagchi, 1982; Mukerjee, 1967). The United States and Japan, in contrast, had escaped European control and thus could adopt Britain’s model of market interference to benefit their specific developmental requirements leading towards domestic industrialisation.

Historically, forced extraction by means of pillage and occupation one could cite numerous examples, such as the transfer of bullion from Spanish colonies in Latin America into Europe. Much of this bullion was simply stolen from the colonies, not traded. The quest for gold resulted in the genocide of native American population. Spain and Portugal were the foremost colonial powers, but still their economies were dependent on the other major west European countries between 14th and 19th century. However, the massive quantity of bullion flowing into Spain also created rapid inflation in that country as demand for goods exceeded supply. As a result, agriculture, for instance, shifted away from 'cereal production, to wine and olives' (Anderson, 1975; Barrett, 1990).

Spain's and Portugal's bullion extracted from the colonies between 16th and 17th century ended up into England, France and Holland (Barrett, 1990). During these periods Spain had always trade deficit with other major European countries. Spain imported a large amount of luxury goods, weapons, ships etc. The export of manufactured goods to Spain and colonies in America spurred the growth of industry in England. Expanding cities’ population increased the demand for food, raise the prices and finally made investment in agriculture more profitable. More money into the hands of the aristocrats, military officials and merchants created more demand for luxury goods. By the end of the 17th century, this expansion constrained by the feudal relations of production and this coincided with the fact that bullion from the American colonies began to run out, which was primarily responsible for the crisis of 17th century feudalism of West Europe (Habsbawm, 1968; Barrett, 1990). From the beginning of the 18th century England was replacing Spain as the foremost colonial power in the world. The treaties of 1703 and 1713 opened the markets of Brazil and also Spanish colonies to England. From 1702 to 1780 the production of gold in Latin America averaged 20 tonnes per year. Sugar produced by black slaves was another important source of wealth for English, French and Portuguese traders (Amin, 1976).

Indeed, the colonialism in various ways boosted the development of capitalism in England and other West European countries (Baran, 1957). Plunder was used for capital accumulation; cheap extraction of raw materials from the colonies boosted the profits, which was then invested in mining and industry. Goods produced at low costs, which were sold at monopoly higher prices in the colonies markets after the destruction of their native producers, created super profits unknown to the world. The industrial revolution in the West is often



associated with the cotton industry. As Hobsbawm (1968) explains that the industrial revolution in Europe from 1780-1840 was based on cotton industry. But the question arises where the raw cotton came from? The cotton manufacture was a typical by product of that accelerating international and especially colonial commerce without which the industrial revolution can not be explained. Its raw material, first used in Europe mixed with linen to produce a cheaper version of textile was almost entirely colonial (Hobsbawm, 1968).

The cotton textile industry was central to British industrial revolution. British cotton textile manufactures stepped into the market which Indian textiles had established. The 18<sup>th</sup> century British "import substitution strategy" of industrialisation were not limited to the production of cotton textiles and light industry alone. It was imposed on capital goods industries also. The peripheral capitalist industrialisation made one-sided dependence on advanced capitalist countries for capital goods and access to modern technology (Bagchi, 1982).

## **Democracy**

It is important to present a brief summary of the key arguments that are usually presented by the World Bank (2002) about the link between democracies and operations of the markets. It is argued that democracy is linked with the more efficient operation of market. It is said that democracies leads to higher levels of information, which in turn means better preferences, identifications and ultimately support for better polices. Democracy also supposed to help rapid institutional change towards greater efficiency. Finally, democracy will be able to maintain freedom and property rights and both are seen as crucial for economic development (Siddiqui 1990). Now wars are being waged to restore democracy.

The incompatibility between increased marketisation and greater democracy has been discussed by Karl Polanyi (1944) who argued that the economic liberalism of the 1920s, when the belief in self regulating market mechanism led to the elimination of 'all interventionist polices which interfered with the freedom of the market' (Polanyi, 1944: 231) effectively disembedding the economy from society, led to increased inequality and instability eventually resulting in the economic depression of the 1930s and rise of fascism. Basing the Polanyi's arguments it appears that rapid adoption of free market policies would likely to erode the democracy of most nation states and would be difficult to impose some form of social democratic control on the market and big corporations.

Several Developing countries with in the past decades embarked upon a transition from authoritarianism towards multi-party systems, along with civilian regimes brought to power through elections. However, the democratisation needs to be looked at in depth and so as to distinguish it from 'political liberalisation' for which it is often mistaken. 'Political liberalisation' implies a process of political change controlled from top down, as a means of preserving most of the status quo. Here the ruling elites under pressures grants certain selected concessions, but it is cosmetic and it seems to be far from establishing democracy. It is argued here that not long ago the 'West' especially the US strongly backed military

dictators in the developing countries.

While the western governments have become vigorous advocates of greater democracy in the developing countries, there has been a steady retreat from democracy at the international level towards greater dominance by those with economic power. In fact, the association between capitalism and democracy is generally based on a rather narrow examination of them, confined to certain historical periods and geographical locations (Moor, 1991). Capitalism in the past has been associated with imperialism, racism, and violence. The Western governments, which proclaim democracy at home, have routinely set up and supported the most murderous and repressive regimes, waged war on anti-colonial movements, subverted people's revolutions by military and economic pressures. For example, during the 2nd World War, when Churchill proclaimed he was fighting for the freedom of Britain, he vowed not to preside over the liquidation of the British Empire (Makhijani, 1992).

Genuine democratisation entails a shift in the basis of state power in favour of oppressed and marginalised groups. In the most developing countries the state power was often created by the colonial rulers and the present local elites find it beneficial, and they invariably have an interest in the preservation of state. In many countries the economic policies of the past colonial rulers have been continued largely unchanged and in some even they have been intensified. We mean the socio-economic structure has been left untouched including the wide income and wealth inequalities and for the stability of democratic and civil rights these inequalities have to be reversed along with the de-centralisation of power.

Thus, the 'human rights' and 'free markets' recipe is currently being prescribed by major western governments and the international financial institutions as a new cure for ills of developing countries and is being forced upon them as part of aid conditionally (World Bank, 2002; Kotz, 2008). Various arguments have been put forward. Certainly the democratic process such as popular participation and political pluralism including free press can be beneficial in tackling the developmental problems. But in a society where the means of production is monopolised by 'few' such reforms from the top will be unsuccessful to strengthen the democracy and civil rights. It seems that the 'Structural Adjustment Programmes' are a code word for promoting big businesses through reliance on market signals to guide economic decisions and allocate resources. The privatisation of public enterprises seems to be the main task of the marketisation process.

The question arises that 'free market' for whose benefit. For example, agricultural trade liberalisation under the auspices of IMF and World Bank's 'Structural Adjustment Programmes' has added food insecurity problems in the developing countries. The World Bank policies are often rationalised by reference to 'market efficiency' criteria. However, prices reflect the ability of countries to subsidise, rather than 'comparative advantage' as advocated by David Ricardo. Costa Rica, following World Bank's suggestion in 1985, exposed its domestic food staple producers to competition from heavily subsidised wheat and maize exports from US. As a result, Costa Rica's imports of foodgrains rose 10 % per year and also a sharp decline in the area under beans and maize cultivation. Further, the poor farmers were forced to abandon cultivation and migrate to the cities. The liberalisation of

agricultural imports in Philippines, again under World Bank pressure, had similar effects. The increased flow of subsidised foreign foodgrains led to depressed prices of domestic rice and prices of other agricultural commodities.

It seems that if in the past the colonial and military occupation policies failed, the 'free market' today is trying to succeed. There are a number of reasons that made this possible: There was no doubt that the success of the post-war Keynesian capitalism, which generated enough surpluses and produced unprecedented 'boom' in the 'West'. The increment of the purchasing power of the working people provided sufficient scope for increased profits and capital accumulation. The massive flow of resources and capital from the developing to the developed countries continues unabated even today. These flows take the form of low prices for raw materials, capital flight from the poor to the rich countries, MNCs repatriation of the huge profits on their investments, debt servicing, higher prices for modern technology charged by the developed countries etc.

Since 1980s, the shift in economic activity from the production of goods to financial services has been underway in the developed countries. As a result, we witness rapid growth in share of financial profit in total corporate profits. It also reflected in rapid growth in private debts – households and business – as a proportion of GDP. Among the leading developed countries such as US, UK and Germany the financial sectors' share of gross domestic product, employment, tax revenues and profits has increased over time (Eatwell, and Taylor, 1998). The commercial banking was separated from investment banking. The business sector saw making profits with mergers, takeovers etc. rather than in production of goods and services. Kotz (2008) argues that the neoliberal policies were supported by big business in general, not just financial sector. The modern form of financialisation indicates more continuity with the development of corporation, which encouraged fusion of private capital into the limited companies, based on share ownership also known as joint-stock companies. Globalisation has indeed gone hand-in-hand with financialisation. The geographical extension of the production and the development in communications has led to the further expansion of finance capital.

### **Policy options**

Here I will discuss the experiences of two countries namely India and Ecuador, who have adopted different developmental strategies and their outcomes.

More than two decades have passed since the adoption of neoliberal reforms in India and the picture is much clear now in order to assess its impact. Some of the key elements of this package were: greater emphasis on liberalised markets, reduced role of public investment, promotion of export-led growth and to attract foreign investors.

The neoliberal policy in India was adopted after the balance of payment crisis in 1991, which involved a substantial decline in foreign exchange reserves, difficulties in the repayment of short-term external commercial debt. During the late 1980s, the gross fiscal deficit of the central and state governments together averaged 9.5 % of the GDP, which rose

to 10.1 % in 1990-91. Facing this critical situation government resorted to commercial borrowing from abroad. Foreign debts increased from US\$ 20 billion in 1981 to \$82 billion in 1990. By 1991, India's debt-servicing payment absorbed foreign exchange to about one-third of total value of exports. This seems to have provided the grounds for advocating neoliberal reforms. Further, the elites in India after the fall of Soviet Union saw better opportunities arising with the closer integration with global capitalism. The neo-liberal reforms have been wide ranging such as de-licensing of industrial investment, removal of export subsidies, reduction in tariffs, and easing rules governing foreign capital inflows. On financial side, foreign institutional investors were allowed to enter Indian stock markets with fully repatriation of profits. In short, India shifted out of development strategies involving high state interventionist to one that has been characterised as a neoliberal strategy. The is defined as market fundamentalism in which free market exchange with minimal state interference, which is claimed to be as most efficient mechanism, paving the way for the unfettered functioning of private capital. The emphasis of home market and deficit-financed state expenditure is to be replaced by export and debt-financed private expenditure at the key stimulus to growth (Siddiqui, 1991)

Technological progress in the form of new products and process in developed capitalist countries is associated with increase in labour productivity. With the trade liberalisation, labour productivity is exogenously driven than before liberalisation period and as a result between output and employment growth (Patnaik, 2006). These factors encouraging increase in capital intensive technology, this certainly will contribute towards stagnation in employment in organised sectors, which means as production growth in the sector accelerates but does not create job i.e. phenomenon of "jobless growth" (Chandrasekhar, 2010). The National Sample Survey NSS data indicates that employment growth has slowed down to 1 % annually. This was due to slow down in employment generation in rural areas where employment rose by only 0.66 % annually, which less than half of the rate of growth witnessed during the 1983-93 i.e. at average 1.7 % annually. In the post neo-liberalism period despite economy grew at a rate of 6 % average per annum, but hardly created employment.

Moreover, the growth which has been taking place is lopsided, with services now accounting for three-fifths of GDP and agriculture is being relegated to contributing less than a fifth and manufacturing a quarter. Enrichment of minority has meant a boom in construction and travelling, and hospitality sector are generating some jobs, while material producing sectors on job fronts are dismal. As Bagchi (2006) argues that "India's policy-makers are misguidedly trying to convert and agrarian economy into a service-dependent economy dominated by an increasingly speculation-ridden stock market, even before the economy has graduated to becoming an industrialised one". (Bagchi, 2006:24)

It seems that the state under neoliberalism is its gradual retreat from the provision of public goods and social services. I mean these services, which could benefit the poor people. For example, the rural development expenditure as a proportion of net domestic product was 2.6 % in 1996, while during the pre-industrialisation year i.e. 1989 the figure was higher i.e. 4 %. Total expenditure on education by both central and state government has fallen from

3.4 % of the GDP in 1989-90 to 2.8 % in 1995-96. Spending on another crucial area such as health has fallen from 1.26 % of the GDP to 1.12% of the GDP during the same period (Patnaik, 2008).

Since the neoliberal reforms in India there is a sharp increase in credit financed housing investment and consumption facilitated by financial liberalisation. Credit led housing demand did stimulate investment in housing and construction sectors. Availability of credits fuelled the demand for automobile, leading towards auto booms in India. Researchers have argued that credit financed consumption and investment played an important role in raising demand for industrial goods. Total bank credit rose dramatically since 2005 at more than double the rate of increase in nominal GDP. As a result, the ratio of outstanding bank credit to GDP doubled over within a decade to nearly 60 % by 2008. (Chandrasekhar, 2010)

Moreover, despite the rapid economic growth for the last two decades nutrition levels have not improved. Per capita calorie consumption has declined, which clearly indicates the problems of hunger are getting worse. The recent National Family Health Survey (NFHS) carried out in 2005-06 finds that 46 % of children under the 3 years are underweight. In terms of calorie consumption, according to NSS (National Sample Survey) of 2004-05, the average daily intake of rural population has declined from 2153 kcal to 2047 kcal from 1993-04 to 2004-05 and from 2071 to 2020 kcal in urban areas for the same period. (Patnaik, 2008)

In the post reform period there has been a remarkable acceleration of the GDP growth rates together with a rise of poverty, a combination mainstream economic theory are unable to explain. We find the co-existence of increasing growth with persistent of poverty in the period of economic liberalisation. The fact that such neoliberal reforms further increased the strangleholds of big business. The growth rate in manufacturing sector rose but the agriculture sector has experienced stagnation. This along with the diversion of land away from foodgrains to industrial or commercial use and in the absence of crop yield raising innovations meant that last two decades have witnessed a decline in per capita output of food grains. A number of researchers have found that Indian agriculture performed poorly since 1991 (Dev, 2004). This is said on the basis that the growth in agriculture has declined after 1991 relative to 1980s. (Government of India, 2007) Also small farmers witnessed a drop in their income since the adoption of neoliberal policies. Manifestation of this is in the rise of farmers' suicide rate especially in Andhra Pradesh and Maharashtra. Some economists blame the slow pace of agriculture liberalisation responsible for this crisis and suggest for increase the role of markets. (Gulati and Narayanan, 2003) While others blame the withdrawal of the state support of agriculture and attempts to integrate agriculture into global markets (Patnaik, 2008).

In short, after two decades of neoliberal policies, the richest minority at the top of the income pyramid is far richer than ever before, while at the same time due to rising unemployment and cuts in government spending majority of working peoples bargaining position is lowered. It is a paradox, where India is now home to the world's richest billionaires but also most malnourished people in the world even so more than sub-Saharan Africa. What is actually happening, which is often ignored by the mainstream economists,



who are obsessed with India's high GDP growth rate and these discussions ignore that in the post liberal period, the growth agriculture sector has slowed down and in particular the food grains have been falling per capita output. This has happened because under neoliberalism the state has actively withdrawn subsidies, which has negative impact on farmers in India.

Only a decade earlier, Ecuador was a basket case i.e. used to be the largest exporter of bananas, coincided with huge social and economic inequality, poorly performing economy, rapid inflation and political instability. The turning point came with the election of Rafael Correa as President in January 2007. His election was backed by indigenous social movements and several radical small groups, who were critical about the status quo. The government was elected with a promise to bring radical change including a new constitution, which included the recognition of human rights, cultural diversity and rights of nature (Ghosh, 2012).

Ecuador is an oil exporter country. However, it benefited little with oil, as in the past, large part of the benefit went to foreign oil companies. But after coming to power Correa's government renegotiated oil contract with foreign oil multinational oil corporations. As a result, the government oil revenue rose from 13 % to 87 % in 2010, but also nearly half of the foreign oil companies left the country. However, the government was undeterred and continued to demand better deal. As a result, the state oil revenue rose by US\$ 870 million in 2011. The government also focused on strategies towards making direct corporate tax system more efficient. This policy also paid off and the tax revenue was increased from 35 % of the total tax collection in 2006 to more than 40 % in 2011 (Ghosh, 2012). This was mainly due to plugging the gap through enforcement of the law and better training of the revenue officials. The increased government revenue was invested in infrastructure and the public investment has risen to 10 % of the GDP, which is highest in Latin America. Following on the radical economic policy, the government has doubled social spending for the last six years and free education at all levels and access to free healthcare to all people and also invested in public housing. This has led to rapid job creation in public sector, which resulted in multiplier effect on private sector. The government increased minimum wages and also diversifying the economy to reduce oil dependency and also diversified trade partners to reduce United States' dependence. (Sader, 2011)

Correa's government launched a policy in order to move the country away from being a primary producer in four stages. In the first stage, the emphasis is on redistribution of income, selective import substitution and increase in public investment. In the second stage, the focus would be to reduce fossil fuel dependency and increase alternative energy production. In the third stage, export diversification away from primary production and finally in the fourth stage, the government will promote knowledge intensive technology. The aim of these strategies is to diversify the economy and to generate wealth to satisfy the basic needs of the population rather than the foreign corporations (Correa, 2012).

## **Conclusion**

My findings suggest that to equate capitalism with democracy is an error and is not



borne out by historical experience. As a matter of fact, present capitalism is inherently less democratic than early capitalism described by Adam Smith. The reason is that capitalism is increasing the centralisation of production, more capital investment and globalisation of markets, where the MNCs are supposed to play a more dominant role in the production and marketing of the products. Modern capitalism also has witnessed a rapid increase in financial capital as distinct from industrial capital.

It seems to us that the neoliberal theorists conceal the exploitative character of the capitalism and cite some adjustment such as enlightenment, justice, welfare measures, efficiency etc., which is seen as capable of internal reforms. Such glorification overlooks the issue of primitive accumulation to build capitalism. To see imperialism as a “modernising” force in the former colonial countries is an illusion as hoped by the proponents of the neoliberal policies (Srinivasan, 2006; Bhagwati, 1998). The neoliberal theorists take inspiration from so-called liberal world order of the period 1870-1913 and see the market as a ‘natural’ institution. We see market in historical context and it is like another institution. They also fail to see capitalism as a socio-economic system, is more than just market. The neoliberal theorists see the market as a ‘natural’ institution. We see market in historical context and it is like another institution. Moreover, the international financial institution recommends strategies to the developing countries which pay no attention to internal power structure or power relations, local conditions and culture.

At present IMF, World Bank and WTO are co-ordinating their efforts to assist those developing countries who have adopted neoliberal policies. This is embodied in the attack on planning in the propagation of the concept of the ‘markets’ as the best regulator of production and investment in the ‘globalisation’ of the economies of the developing countries. It is largely this elitist section of the developing countries is supposed to be globalized, because it is this section who has money to buy modern luxury items. The rest of the population mirrored in illiteracy, poor health, low income, low skills and productivity are not a concern of the MNCs and the international financial institutions.

In order to reduce poverty, India should prioritise agriculture sector especially in food grain strategy, which places the growth of agriculture, especially to increase food grain production by encouraging small and marginal farmers into it. Domestic markets need to be expanded which would benefit millions of people and the economy needs to be insulated from external shocks. The increase of food production would bring down inflation. The provisions of cheap credits and state supports for research for higher yielding seeds in food and non-food crops would increase farmers’ income and thus expand rural markets for manufactured goods. The governments in Latin America such as Bolivia, Ecuador, and Venezuela have challenged the rationale of the neo-liberal policies, developed alternatives

I find that capitalism has separated its beneficiaries from its victims both geographically and culturally through institutionalisation. Therefore, the removal of the status quo is crucial and launching economic programmes clearly to improve the living conditions of the underprivileged for any meaningful change. Elites, who in order to protect their privileged position, keep millions of people in the poor countries in poverty and starvation. Their

survival in the developing countries often depends on continued links with the rich countries. Neo-liberalism is designed to serve the interest of most powerful elements of society. The core aspect of neo-liberalism is freeing capital, meaning government in the developing countries cannot stop capital moving out of the country. There is an urgent need, as Baran (1957) said more than five decades ago, which is still appeared to be relevant. He emphasised that surplus and its utilisation has to be democratically planned. Today more than ever, the question remains how we can move beyond the failures of the past to construct more meaningful development beyond the current mess that would be more social and inclusive.

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